This Report will be made public on 12 February 2019

Folkestone & Hythe District Council

Report Number **C/18/76**

To:	**Cabinet**
Date:	**20 February 2019**
Status:	**Non-Key Decision**
Head of Service:	**Charlotte Spendley, Assistant Director – Finance, Customer and Support Services**
Cabinet Members:	**Councillor Malcolm Dearden, Portfolio Holder for Finance and Councillor Alan Ewart-James, Portfolio Holder for Housing**

SUBJECT: HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL ORIGINAL BUDGET 2019/20

SUMMARY: This report sets out the Housing Revenue Account Revenue and Capital Budget for 2019/20 and proposes a decrease in weekly rents and an increase in service charges for 2019/20.

REASONS FOR RECOMMENDATION:
Cabinet is requested to agree the recommendations set out below as the Local Government Housing Act 1989 requires the Council, as a Local Housing Authority, to keep a separate Housing Revenue Account and to produce estimates to ensure that the account does not go into deficit. The authority also has a duty to set and approve rents in accordance with government guidelines that are outlined in the self-financing determination. The Constitution requires that the annual Budget and any variations to the Budget are approved by Council.

RECOMMENDATIONS:
1. **To receive and note Report C/18/76.**
2. **To recommend to Full Council the Housing Revenue Account Budget for 2019/20 (refer to paragraph 2.1 and Appendix 1).**
3. **To recommend to Full Council the decrease in rents of dwellings within the HRA on average by £0.83 per week, representing a 1.0% decrease with effect from 1 April 2019 (refer to paragraph 3.2).**
4. **To recommend to Full Council the increase in service charges (refer to section 3.5).**
5. **To approve the Housing Revenue Account Capital Programme budget 2019/20 (refer to paragraph 4.1 and Appendix 2).**

1. INTRODUCTION

1.1 The Housing Revenue Account (HRA) is a ring-fenced account and is outlined and projected within the HRA Business Plan. The HRA Business Plan determines HRA budget setting, as estimates need to be closely aligned to the model to ensure that the HRA remains financially viable.

1.2 The Reform of Council Housing Finance came into effect from 1 April 2012, and significantly brought an end to the subsidy system where authorities such as Folkestone & Hythe made a contribution to the national pot. Instead, authorities are now part of the self-financing arrangements following a re-distribution of the national housing debt and the abolition of rent restructuring.

1.3 In October 2018, Government announced the removal of the HRA borrowing cap to enable local authorities to build more homes. This has provided an opportunity for the Council to review its current New Build Programme and this will be considered as part of the HRA Business Plan refresh due to be presented to Cabinet in March 2019.

2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

2.1 Original Budget 2019/20

The proposed HRA Budget for 2019/20, at Appendix 1, shows a forecast surplus of £308k. This is in line with the agreed HRA Business Plan which will continue to fluctuate from year to year, depending on the profile of the stock, size of the new build programme and the resources available. The year end HRA revenue reserve balance as at 31 March 2020 is expected to be £7.900m as shown at Table 1 below.

Table 1	**£000's**
Original estimate of balance at 31 March 2019	**(7,592)**
Movement from Original to Original budgets	
Decrease in depreciation costs (see 2.1.2)	(1,014)
Increase in rents and other service charges due to annual rent setting (see 2.1.3)	(406)
Decrease in provision for bad or doubtful debts (see 2.1.4)	(50)
Increase in revenue contribution to capital expenditure (see 2.1.5)	295
Increase in repairs and maintenance (see 2.1.6)	216
Increase in general management costs – EKH Management Fee (see 2.1.7)	189
Other net movements	6
	(764)
Deficit 2018/19	456
Original estimate of balance at 31 March 2020	**(7,900)**

2.1.1 **HRA Revenue budget**

The HRA revenue budgets are reflected in the HRA business plan. The business plan sets out the Council's income and expenditure plans for its landlord service over a 30 year period, including the capital costs of maintaining the decent homes standard and of any additional improvements agreed with tenants.

2.1.2 **Depreciation costs**

The decrease in depreciation costs relates to the combined decreases of depreciation on HRA dwellings and non-HRA dwellings. This is mainly due to having to charge the real depreciation cost to the HRA instead of using the Major Repairs Allowance as a proxy for depreciation which has been allowed and used in previous years.

2.1.3 **Rents**

The increase in dwelling rents is due to the additional homes provided through the Council's New Build and Acquisitions programme as well as 2019/20 being a 53 week year generating an additional week's rental income.

As part of the Summer Budget 2015 the Chancellor announced that rents in social housing would be reduced by an average of 1% a year for four years from April 2016. 2019/20 is the final year of this initiative and the HRA revenue budget includes the 1% reduction (see 3.2 below).

2.1.4 **Provision for bad or doubtful debts**

The decrease in bad debt provision relates to there being minimal expected impact during 2019/20. The phased implementation of Universal Credit commenced in January 2016 however it has been announced that a slower more phased rollout is to be completed by June 2024.

2.1.5 **Revenue Contribution to Capital**

The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisition programme. This is reflected within the HRA Business Plan which was agreed by Cabinet on 23 March 2016.

2.1.6 **Repairs and maintenance**

The increase in repairs and maintenance is largely due to contract inflation.

2.1.7 **East Kent Housing (EKH) Management Fee**

EKH have proposed several increases to the 2019/20 management fee as shown below and these are included within the proposed HRA Budget.

- Salaries – annual cost of living/pension payments £42,500
- Procurement Officer post £8,750
- Improved contract management £20,000
- Additional resource - Universal Credit impact £111,000

Total **£182,250**

Therefore, the total budget for the management fee in 2019/20 is £2,165,810.

The proposed increase in the Management Fee is intended to improve the overall performance and financial resilience of East Kent Housing. The Management fee has remained unchanged over the last 3 years. The additional resources will enable EKH to fully respond to the additional impacts of Universal Credit and to protect the Council's rental income from its HRA housing stock. It will also ensure that EKH remains on a secure financial footing and will strengthen its performance in terms of contract procurement and contract management.

It is proposed that the additional resources will be provided for an 18 month period from 2019/20 and the performance of EKH will continue to be closely monitored and reported to members.

2.2 **HRA Reserve Balances**

HRA Reserve – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan. The actual reserve balance on the HRA at the start of 2018/19 was £8.048m, this has increased due to the planned accumulation of balances to help fund the future new build programme.

Table 2 below shows the estimated HRA balances to 31 March 2020.

Table 2	**2018/19**	**2019/20**
	£000's	£000's
Balance as at 1 April	8,048	7,592
Balance as at 31 March	7,592	7,900

The HRA reserve is expected to increase by £308k from the close of 2018/19 and the end of the financial year 2019/20.

The changes with the introduction of Self-Financing have significantly increased the flexibility for the Council to manage the resources and debts within the HRA to best meet the needs of existing and future tenants. The estimated HRA balances, set out in table 2, are above the revised recommended minimum balance, which is £2m.

Major Repair Reserve (MRR) – This reserve is derived from the transfer of the depreciation charge from the revenue account and can be used to fund major repairs for capital expenditure or debt repayment. The Council's Business Plan requires that the reserve is allocated to fund capital expenditure. The proposed HRA capital programme should leave the Major

Repairs Reserve with a nil balance. This is in line with the practice adopted by the Council in previous years, of using the Major Repairs Reserve in the year it is received.

3. RENT SETTING GUIDANCE & RENTS

3.1 Rent Guidance – National context

The purpose of this Government initiative, re-introduced in 2015/16, is to provide a consistent basis for the setting of local authority and Registered Social Landlords (RSLs) rents at an affordable level. Government rent policy aims to provide a closer link between the rent and the qualities tenants value in a property, and to reduce unjustifiable differences between rents set by Councils and by RSLs. The current self-financing business plan is based on continuing to adopt the government's rent policy.

3.2 Rent Decrease – Local context

In line with last years approved report, Housing Services will be charging the 'formula rent'[1] when a property is re-let to a new tenant and service charges that fall under utilities will be charged at the 'actual' cost on new lets.

The proposed decrease of 1%, in line with Government guidelines, equates to a decrease of £0.83 per week or £42.33 per annum. This gives an average rent of £85.43 (over 51 weeks) in 2019/20 (average rent in 2018/19 is £86.35). This decrease in rents is a reduction of approximately £144k in 2019/20 and has been factored into the latest approved HRA business plan.

The proposed decrease will keep our average rent below the Limit Rent set by the Government, therefore avoiding any Housing Benefit rebate costs.

2019/20 is the final year of the Government's rent policy which enforced rents to be reduced by 1% each year. From 2020/21 the current MHCLG proposal is to increase rents by CPI plus 1% for a period of 5 years.

3.3 New Build rents

In line with proposals set out in the Council's current HRA Business Plan, the rents for any new homes will be set at affordable rent levels. Affordable rents are defined as being a maximum of 80% of the prevailing average market rent for the area and should be no more than the prevailing local housing allowance (LHA) rates for the area to ensure that properties remain affordable.

The local housing allowances rates for 2019/20 will not be available until late January/February 2019. LHA rates for the area have not changed

[1] *The 'formula rent' is the amount an individual rent can be set at before taking into account the rent restructuring restrictions and maximises the rental income received without penalising any individual.*

significantly over the last two years. The indicative 2019/20 affordable rents for the Folkestone & Hythe area are as follows:

Bedsits	£59.68per week
1 bedroom houses	£87.16 per week
2 bedroom houses	£116.22 per week
3 bedroom houses	£145.27 per week
4 bedroom houses	£169.68 per week

3.4 **Rent Comparisons**

The table below compares Folkestone & Hythe's average weekly rent to that of other authorities in Kent.

Table 3	**Average weekly rent over 53 weeks (2019/20)** **£**	**Difference between FHDC and other authorities** **£**
Folkestone & Hythe	82.21	-
Dover	83.27	1.07
Canterbury	88.93	6.73
Thanet	79.52	(2.68)

- Subject to Dover, Canterbury and Thanet's approval at their own Council meetings.

3.5 Service Charges

3.5.1 **General Service Charges**

The general principle for service charges for tenants is that they are set to recover the costs of the service they fund. However, the government also limits increases in service charges to the Consumer Price Index (CPI) plus 1.0% per annum as part of rent setting guidance. The CPI for September 2018 was 2.4%, CPI plus 1.0% is therefore 3.4%. As a result general service charges within the HRA will increase by 3.4% with effect from 1 April 2019.

Local authorities can increase charges above this level where costs are increased that are beyond the authorities' control. Utility charges, such as heating and hot water in sheltered housing schemes are an example where this applies. Proposals for these charges for 2019/20 are set out in 3.5.2 below.

3.5.2 **Heating charges in Sheltered Housing**

Residents in 12 of the Council's sheltered housing schemes have heating and hot water provided to their flats by communal systems. Charges are made for this service based on the floor area of each flat.

As set out within last year's report, over time fuel costs have increased significantly above the rate of inflation, so that the charges raised for this service no longer cover the costs. Therefore, the proposed charges for this service towards the actual cost of providing the service are in line with those agreed last year. This continued move to full cost recovery would result in some tenants facing significant increases and it is therefore proposed to set charges that provide some interim protection against the highest increases.

Following the same approach as previous years it is recommended that the 2019/20 service charges for heating and hot water in sheltered housing schemes should be set at actual cost or 10% increase, subject to the following limits:

- Bedsit flats £19.14 per week (£976.14 per year)
- 1 bed flats £21.34 per week (£1,088.34 per year)
- 2 bed flats £23.43 per week (£1,194.93 per year)

A few charges are already set above these levels, and these should be frozen at current levels for 2019/20.

These changes will reduce the amount the HRA subsidises tenants' heating charges to £2,000 in 2019/20 compared to £4,000 in 2018/19.

4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

4.1 **Original Budget 2019/20**

The proposed HRA Capital Budget for 2019/20, shown in Appendix 2, is £9.028m. Table 4 below shows the movements in the programme from the 2018/19 original budget to the original budget for 2019/20.

Table 4	**£000's**
Original estimate 2018/19	**8,574**
Reductions in programme	
Fire Protection works (see 4.1.1)	(904)
Replacement Windows and Doors (see 4.1.2)	(140)
Thermal Insulations (see 4.1.3)	(40)
Bathroom Improvements (see 4.1.4)	(30)
Increases in programme	
External Enveloping (see 4.1.2)	438
New Build programme (see 4.1.5)	421
Heating Improvements (see 4.1.6)	203
Re-roofing (see 4.1.2)	187
Re-wiring (see 4.1.7)	105
Kitchen Replacements (see 4.1.8)	103
Contract Specifications (see 4.1.9)	61
Lift Replacement (see 4.1.10)	50
Total increase in expenditure	**454**
Original estimate 2019/20	**9,028**

4.1.1 **Fire Protection Works**

The decrease in fire protection works is due to the fire precaution programme completing by the end of March 2019.

4.1.2 **Stock Asset Management (SAM)**

A programme of works has been identified in 2019/20 using SAM data for replacement windows and doors, external enveloping and re-roofing, these are subject to change when surveys are completed in more detail.

4.1.3 **Thermal Insulations**

The budget requirement for 2019/20 allows for some upgrades which have been identified in year whilst a new contract is procured.

4.1.4 **Bathroom Improvements**

The decrease in bathroom improvements is based on the housing stock number and the life cycle of the bathrooms with 113 identified to be replaced in 2019/20.

4.1.5 **New Build programme**

The budget required for the new build programme will vary from year-to-year depending on the profile of the programme. This is reflected within the HRA Business Plan which was agreed by Cabinet on 23 March 2016 and stated that 200 new homes would be delivered over a 10 year period.

Table 5 below shows the approved profile of the new build/acquisitions programme over a 10 year period and the actual progress to date.

Table 5	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
New builds/acquisitions	-	Year 1	Year 2	Year 3	Year 4	Year 5
Target	-	30	30	30	30	30
Delivered / Forecast	16	10	38	28	9	60

	2021/22	2022/23	2023/24	2024/25	2025/26	**TOTAL**
New builds/acquisitions	Year 6	Year 7	Year 8	Year 9	Year 10	
Target	10	10	10	10	10	**200**
Forecast	0	0	40	20	0	**221**

This shows that 92 units have been delivered to date against a target of 90 and a total of 221 units against the targeted 200 are forecast to be delivered by 2025/26.

All of the new build options will be subject to a detailed viability appraisal to ensure they meet the requirements of the HRA Business Plan.

4.1.6 **Heating Improvements**

The increase in heating improvements is based on stock numbers and the life cycle of the current boilers, also there is a requirement for two commercial boiler replacement/upgrades in 2019/20.

4.1.7 **Re-wiring**

The increase in re-wiring is due to the electrical inspections that will be carried out going forward which will raise category 1, 2 and 3 electrical works with category 3 works being the larger rewiring works.

4.1.8 **Kitchen Replacements**

The increase is based on the number of kitchens needing to be replaced due to the life cycle of the kitchen.

4.1.9 **Contract Specifications**

Additional budget for the external writing and production of detailed technical specifications of work and tender documentation for capital contracts to improve contract management. This forms part of the EKH funding proposal for 2019/20 with additional resources provided for 18 months from 2019/20 and performance will be monitored closely.

4.1.10 **Lift Replacements**

It has been identified that a new lift is required at Philippa House to be replaced in 2019/20.

4.1.11 The HRA capital programme budgets are reflected in the HRA Business Plan, including the capital costs of maintaining the decent homes standard and of any additional improvements agreed with tenants.

4.2 **HRA Reserve Balances**

HRA Reserve – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan.

The following table shows the required resources to finance the original budget for 2018/19 and original budget for 2019/20 for the HRA capital programme.

Table 6	**Major Repairs Reserve**	**Use of RTB Capital Receipts**	**Revenue Contribution**	**Total**
	£000’s	£000’s	£000’s	£000’s
Original budget 2018/19	3,500	1,507	3,567	8,574
Original budget 2019/20	3,532	1,634	3,862	9,028

5. RISK MANAGEMENT ISSUES

5.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
East Kent Housing management fee variation	Medium	Low	Officers are ensuring that the rules laid out in the management agreement are followed.
Budget not achieved	High	Low-Medium	Stringent budget monitoring during 2019/20 enabling early corrective action

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 **Legal Officer’s Comments** (DK)

There are no legal implications arising directly out of this report other than as already stated therein. (Following the coming into force of Schedule 15 of the Localism Act 2011, English local authorities are required to be self-financing in relation to their housing stock, financing their housing stock from their own rents.)

6.2 **Finance Officer’s Comments** (LW)

All financial effects are included in this report.

6.3 **Diversities and Equalities Implications**

This report is in line with the Council's Diversity and Equality policies.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

This report has been prepared by:

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The following background documents have been relied upon in the preparation of this report:

None

Appendices:
Appendix 1 - HRA Revenue Budgets

Appendix 2 - HRA Capital Programme