

This Report will be made public on 14 January 2020

Report Number **C/19/60**

**To:** Cabinet  
**Date:** 22 January 2020  
**Status:** Non-Key Decision  
**Head of Service:** Charlotte Spendley, Director Support Services  
**Cabinet Members:** Councillor David Monk, Leader of the Council and Councillor David Godfrey, Housing, Transport and Special Projects

**SUBJECT:** DRAFT HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL BUDGET 2020/21

**SUMMARY:** This report sets out the draft Housing Revenue Account Revenue and Capital Budget for 2020/21 and proposes an increase in weekly rents and an increase in service charges for 2020/21.

**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/19/60.
2. To recommend to Full Council the Housing Revenue Account Budget for 2020/21. (Refer to paragraph 2.1 and Appendix 1).
3. To recommend to Full Council the increase in rents of dwellings within the HRA on average by £2.22 per week, representing a 2.7% increase with effect from 1 April 2020 (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 2020/21. (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 increase its New Build Programme to deliver 300 homes by 2025/26 and the updated HRA Business Plan was approved by Cabinet in March 2019.

## 2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

### 2.1 Original Budget 2020/21

The proposed HRA Budget for 2020/21, at Appendix 1, shows a forecast deficit of £695k. 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 2021 is expected to be £7.2m as shown at Table 1 below.

Table 1	£000's
<b>Original estimate of balance at 31 March 2020</b>	<b>(10,471)</b>
<b>Movement from Original to Original budgets</b>	
Increase in rents and other service charges due to annual rent setting (see 2.1.2)	(130)
Increase in general management costs – EKH Funding (see 2.1.3)	672
Increase in revenue contribution to capital expenditure (see 2.1.4)	2,942
Other net movements	79
	<b>3,563</b>
<b>Surplus 2019/20</b>	<b>(308)</b>
<b>Original estimate of balance at 31 March 2021</b>	<b>(7,216)</b>

#### 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 Rents

The increase in dwelling rents is due to the application of the rent increase in line with the revised policy from 1<sup>st</sup> April 2020 of CPI + 1%. This revised policy was announced in February 2019 and replaces the Welfare Reform and Work Act 2016 which required social landlords to reduce rents by 1% each year for four years. See section 3 for more detail.

## 2.1.3 East Kent Housing (EKH) Funding

The proposed EKH management fee includes the continuation of the 2019/20 Improvement Plan. Funding was originally agreed for 18 months, meaning only 6 months funding would be included in the 2020/21 budget, but EKH have requested this be continued for the full year in 2020/21, with a total of £162,250 included within the budget. As detailed below:

○ Rent Collection (Universal Credit) Resource	£111,000
○ Organisation Health/Sustainability	£42,500
○ Improved Procurement	£8,750
<b>Total</b>	<b>£162,250</b>

EKH have also proposed several further increases to the management fee for additional resources to address compliance issues. These are shown below and have been included within the proposed HRA budget.

• Additional compliance posts (4.43 FTE)	£230,200
• Estates Services posts (1 FTE)	£42,750
• Organisation Health/Sustainability	£61,500
<b>Total</b>	<b>£334,450</b>

Therefore, the total budget for the management fee in 2020/21 is £2,480,260.

The proposed increase in the Management Fee is intended to improve the overall performance and financial resilience of East Kent Housing. The additional funding will increase the staffing structure providing more resources to deal with compliance.

A further sum of £60,000 has been requested to carry out an annual stock condition survey on 20% of the stock to better inform the programme of works required. This is included within the proposed budget.

The current proposed budget is based on EKH continuing to provide the housing management service for the Council. The future delivery of the management of council housing is currently being reviewed and the four owner Councils are undertaking a consultation with council tenants and other key stakeholders on the potential options.

If the outcome of the consultation is to withdraw from EKH and return the provision of housing management services back in-house then a full financial appraisal will need to be undertaken. It is not possible to make a realistic financial assessment of the potential costs involved or impact on the HRA budget at this stage. The proposed budget does include a sum of £250,000 to support interim transition management costs of bringing the service back in-house, as agreed by Cabinet on 16 October 2019.

The consultation ended on 20 December 2019 and the outcome of the process will be reported to Cabinet and Council at its meeting on 19 February 2020.

The future of the service will inevitably contain a number of unknowns until the final result of the consultation and decision is made. Pending the outcome of that decision, the budget has been set on the parameters outlined in this report. Whilst the future of the service will evolve, at this stage of preparing the budget it is proposed that any new structure will be within the financial parameters of the current management fee (as set out above). As has been mentioned, if the decision is taken to bring the service back under the control of the council, then a sum of £250,000 has been set aside to cover any transition costs. This is an estimate and will be continually reviewed should that be the decision the council takes. It is worth noting that the new senior structure of the council has also created a Director of Housing and Operations post that will be responsible for the overall housing service, including the HRA, regardless of how it is delivered.

It is also worth noting that the current capital programme is based on the existing profile of spend which will be subject to review if control of the housing stock were to change. The sum of £60,000 for further stock condition surveys will support this process but will only help inform the future capital programme.

It has recently been announced that the council will invest £10m into existing housing stock as well as increasing the new build/acquisition programme to deliver 1,200 homes over a 15 year period from 2020/21. The detail to support these announcements will be provided within the updated HRA Business Plan which will be presented to Cabinet for decision at its meeting on 19 February.

#### **2.1.4 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 13 March 2019.

The contribution to capital in 2020/21 has also increased following the recent announcement to make a significant investment into existing housing stock. £10m will be invested over a three year period up to 2022/23 and for the purposes of budgeting it has been assumed that expenditure will be incurred evenly over the three years, with £3.5m included within the capital budget for 2020/21.

## 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 2019/20 was £10.2m, 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 2021.

<i>Table 2</i>	<b>2019/20</b>	<b>2020/21</b>
	£000's	£000's
Balance as at 1 April	10,163	10,471
Balance as at 31 March	10,471	7,216

The HRA reserve is expected to decrease by £3,255k from the close of 2019/20 and the end of the financial year 2020/21.

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 Policy – National context

In October 2017, the Government announced its intention to set a long term rent deal for both local authority landlords and housing associations. This would permit annual rent increases on both social rent and affordable rent properties of up to CPI plus 1% from 2020 for a period of at least five years.

The new policy recognises the need for a stable financial environment to support the delivery of new homes. The government is now looking to the social housing sector to make the best possible use of its resources to help provide the homes that the country needs.

The new policy will come into effect from 1 April 2020. It will not override landlords' statutory obligation to complete the four year social rent reduction as required by the Welfare Reform and Work Act 2016.

### 3.2 Rent Increase – Local context

In line with last years approved report, Housing Services will be charging the ‘formula rent’<sup>1</sup> 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 increase of CPI plus 1% which is 2.7%, in line with Government guidelines, equates to an increase of £2.22 per week or £115.44 per annum. This gives an average rent of £87.81 (over 50 weeks) in 2020/21 (average rent in 2019/20 is £85.43 (over 51 weeks)).

The HRA budget, business plan and new build programme is based upon this level of increase. This funding is ring fenced to the HRA and supports the investment in and maintenance of the housing stock.

### 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 2020/21 will not be available until late January/February 2020. LHA rates for the area have not changed significantly over the last two years. The indicative 2020/21 affordable rents for the Folkestone & Hythe area are as follows:

Bedsits	£60.28per week
1 bedroom houses	£88.04 per week
2 bedroom houses	£117.39 per week
3 bedroom houses	£146.73 per week
4 bedroom houses	£171.38 per week

### 3.4 Rent Comparisons

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

<i>Table 3</i>	<b>Average weekly rent over 52 weeks (2020/21)</b>	<b>Difference between FHDC and other authorities</b>
	<b>£</b>	<b>£</b>
Folkestone & Hythe	84.43	-
Dover	85.52	1.09
Canterbury	91.34	6.91

<sup>1</sup> 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.

Thanet	81.67	(2.76)
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- 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 2019 was 1.7%, CPI plus 1.0% is therefore 2.7%. As a result general service charges within the HRA will increase by 2.7% with effect from 1 April 2020.

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 2020/21 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 towards 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 2020/21 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 £21.06 per week (£1,053 per year)
- 1 bed flats £23.48 per week (£1,174 per year)
- 2 bed flats £25.78 per week (£1,289 per year)

## 4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

### 4.1 Original Budget 2020/21

The proposed HRA Capital Budget for 2020/21, shown in Appendix 2, is £13.5m. Table 4 below shows the movements in the programme from the 2019/20 original budget to the original budget for 2020/21.

<i>Table 4</i>	<b>£000's</b>
<b>Original estimate 2019/20</b>	<b>9,028</b>
<b>Reductions in programme</b>	
External Enveloping (see 4.1.1)	(457)
<b>Increases in programme</b>	
New Build programme (see 4.1.2)	1,070
Enhanced Capital Programme (see 4.1.3)	3,500
Heating Improvements (see 4.1.4)	131
Disabled Adaptations (see 4.1.5)	100
Other minor variances	133
<b>Total increase in expenditure</b>	<b>4,477</b>
<b>Original estimate 2020/21</b>	<b>13,505</b>

#### 4.1.1 External Enveloping

The decrease in external enveloping is due to a low demand in 2019/20 and the need to survey properties to collate a programme of works. It is anticipated that the level of works required will be lower than previously budgeted.

#### 4.1.2 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 13 March 2019 and stated that 300 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.

<i>Table 5</i>	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	32	8	60
Delivered / Forecast	16	10	38	28	8	65

	2021/22	2022/23	2023/24	2024/25	2025/26	<b>TOTAL</b>
New builds/acquisitions	Year 6	Year 7	Year 8	Year 9	Year 10	
Target	12	55	40	20	13	<b>300</b>
Forecast	26	55	40	14	0	<b>300</b>

This shows that the new build programme is on target with 100 units having been delivered to date against a target of 100 and a further 200 units 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.



#### 4.1.3 Enhanced Capital Programme

Following a consultation with tenants around the future of East Kent Housing, it is likely that the housing management service will be brought back in-house. It will be necessary to make a significant investment in the existing housing stock to bring it back up to a reasonable state of repair.

It has recently been proposed that £10m from land receipts from the General Fund will be invested into the HRA for an enhanced capital programme over a three year period up to 2022/23. For the purposes of budgeting it has been assumed that expenditure will be incurred evenly over the three years, with £3.5m included within the capital budget for 2020/21, subject to Council decisions being made. Expenditure will be monitored and budgets re-profiled as the detail of required works becomes known.

#### 4.1.4 Heating Improvements

A new Gas Servicing and Heating Installations contract has been awarded for 2020/21 as agreed by Cabinet on 31 July 2019. The increased budget reflects the fixed cost of the annual servicing element of the contract and an estimate of variable costs for additional maintenance required.

#### 4.1.5 Disabled Adaptations

The increase in disabled adaptations is a result of changes in policy which has led to an increase in occupational therapy referrals and adaptation works required.

4.1.6 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 2019/20 and original budget for 2020/21 for the HRA capital programme.

<i>Table 6</i>	<b>Major Repairs Reserve</b>	<b>Use of RTB Capital Receipts</b>	<b>Revenue Contribution</b>	<b>Total</b>
	£000's	£000's	£000's	£000's
Original budget 2019/20	3,532	1,634	3,862	9,028
Original budget 2020/21	5,275	1,425	6,805	13,505

## 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	Medium	Officers are ensuring that the rules laid out in the management agreement are followed.
Budget not achieved	High	Low-Medium	Stringent budget monitoring during 2020/21 enabling early corrective action

## 6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

### 6.1 Legal Officer's Comments (NE)

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

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