

**Section One – Housing Revenue Account Budget****Revised Budget 2018-19**

1. During 2018-19, the Cabinet and Finance & Audit Committee (which provides the scrutiny function over budgetary control) have received three quarterly budget monitoring reports. Each Budget Monitoring report has included a summary of the known variances contributing to the projected year-end financial position of the authority.
2. The Budget Monitoring Report at the end of Quarter Three (period to 31 December 2018) indicates a projected surplus for the year of £734,100, albeit income and expenditure variances in the last quarter of the year will impact on this figure. This compares against an original estimated requirement to draw monies from reserves of £128,840 to balance the annual budget. Any surplus will be transferred to reserves at year-end.

**Revenue Budget 2019-20**

3. The Original Estimate for 2019-20 represents a balanced budget position, though this has only been achieved through drawing £3,509,960 from the HRA General Reserve as expenditure in the year is anticipated to exceed the income generated in the year. A draft budget book is attached at appendix 2a for Member information.

Description	Original Budget 2018-19 (£)	Projected Outturn 2018-19 (£)	Proposed Original Budget 2019-20 (£)
Supervision and Management	6,014,770	5,444,770	5,357,200
Repairs and Maintenance	7,766,870	7,351,870	7,618,140
Depreciation	6,813,840	6,813,840	6,911,810
Intensive Housing Management - Expenditure	667,200	667,200	667,490
Capital Finance	6,539,560	6,519,560	10,189,750
<b>Sub Total Expenditure</b>	<b>27,802,240</b>	<b>26,797,240</b>	<b>30,744,390</b>
Rents of Dwellings	(25,298,700)	(25,156,640)	(25,031,400)
Other Rental Income	(33,370)	(33,370)	(29,300)
Service Charges	(1,380,300)	(1,380,300)	(1,399,800)
Non Dwelling Income	(327,130)	(327,130)	(140,000)
Intensive Housing Management Charge Income	(103,480)	(103,480)	(103,480)
Intensive Housing Management Other Income	(418,160)	(418,160)	(418,000)
Other Income	(112,260)	(112,260)	(112,450)
<b>Sub Total Income</b>	<b>(27,673,400)</b>	<b>(27,531,340)</b>	<b>(27,234,430)</b>
<b>Contributions to/(from) reserves</b>	<b>(128,840)</b>	<b>734,100</b>	<b>(3,509,960)</b>
<b>Net Surplus/Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>

4. Working balances at the end of the year are estimated to remain at £3.0m, the minimum level of working balances for the HRA as determined by the Medium Term Financial Strategy.
5. The key factors considered when proposing the budget for 2019-20 are set out in the following sections.

## **Budgetary Challenge**

6. Workstreams within the Medium Term Financial Strategy to bridge the gap on the HRA included activity to challenge spend and budgetary provisions; reductions to budgets of £54,000 have been derived from the second phase of this activity, building on the £241,640 that has been realised in the budget setting for the previous two financial years.

## **Supervision and Management Costs**

### Employee Costs

7. The proposed revenue budget for 2019-20 reflects the second year of the Local Government pay settlement which, in broad terms, will see staff receive a 2% pay award, with greater percentage increases towards the lower end of the pay scale.
8. Following the salaries estimates process, and also taking account of changes on other salary on-cost budget lines, the net effect on the HRA Business Plan for 2019/20 is saving of some £466,000. This is as a result of removing a number of posts that have been vacant for more than 12 months including the Warden posts. The posts which have been removed have been agreed by the Director (Housing & Regeneration) and the Assistant Director (Housing).
9. A Vacancy Allowance of £100,000 has been retained for the HRA.
10. The recharges between the General Fund and the HRA have been reviewed including Horticulture and CCTV charges. These changes coupled with the review of the Warden Recharge within the HRA account itself results in a net saving of some £188,000 against the equivalent budgeted expenditure for 2018-19.

## **Repairs and Maintenance**

11. Responsive Repairs to council dwellings are carried out in-house by the Operational Service team, enabling the council to have a strong influence over the design of the service. Where required, works are also delivered by external contractors under term contract arrangements.
12. The repairs and maintenance function was subject of a Scrutiny Topic Review in 2016-17 and the recommendations from the review have been implemented alongside and investment in a new job scheduling system which came into effect at the start of the 2018-19 financial year. The ongoing effect of this work continues to be reflected in the 2019-20 budget.
13. It was agreed at Cabinet in October to reduce the council's reliance on term contractors by the Operational Service Team by expanding the in-house workforce. This results in cost savings as they could be charged at more competitive rates to further assist with efficiency savings whilst improving the quality of work and timescales in which it is completed.
14. The net effect of the resulting reduction in the payment to contractors and the additional staff costs associated with increasing the workforce results is a saving of £149,000.

## **Depreciation**

15. Depreciation is a real charge to the HRA and is used to provide resources for capital investment in the council's housing stock. The depreciation charge in 2019-20 reflects the valuation of the council housing stock and recalculation of depreciation charges attributable to HRA non-current assets as anticipated at the end of the 2019-20 financial year.
16. Based on the stock valuation as at 1 April 2017, there is an increase in the depreciation charge for 2019/20 of some £98,000.

## **Intensive Management Programme and Supporting People**

17. In 2018-19 the Intensive Management programme replaced the Supporting People programme which had been in place since April 2003. The programme upholds the council's commitment to continue to provide housing-related support to vulnerable groups enabling them to maintain their independence and remain in their home.
18. KCC removed funding available for Older Persons Services at the end of March 2018 and therefore, following an exercise to fully quantify the cost of these support services, the associated funding was reviewed for the 2018-19 budget.
19. The budgeted expenditure for the Intensive Management programme in 2019-20 is £667,490. Funding of £418,000 for the programme is expected to be provided through Intensive Housing Management (IHM) charges to persons receiving the services, with a further £103,480 recovered directly from tenants with a view to moving towards full direct service cost recovery over the next five years. The indirect costs of the service are recovered via a service charge to tenants however, as this charge is capped, it will result in a net cost to the HRA of £146,010 for 2019-20.

## **Capital Financing**

20. The council will be making a further loan repayment of £4.738m in 2019-20 in accordance with the Optimum Loans Portfolio determined as part of the self-financing settlement.
21. The amount of Revenue Contribution to Capital (RCCO) will fluctuate between years dependent upon to level and structure of resources required to fund the new build & acquisition programme. In 2019-20 the council does not require any funding from revenue for capital purposes.
22. The interest due on the HRA proportion of the single loans pool is £2.231m.

## **Rent from Dwellings**

23. The Government made a commitment in the Summer 2015 Budget to reduce social rents by 1% a year for four years from April 2016 to help reduce the Housing Benefit bill and cut the national deficit. Within the Welfare Reform and Work Act 2016, Government included provisions requiring councils and housing associations to reduce rents by 1% each year from April 2016 to April 2019 inclusive (i.e. for financial years 2016-17 to 2019-20). In September 2016 the Secretary of State for Work and Pensions announced that the 1% rent reduction would apply for supported housing for 2017/18 and the following two years. 2019/20 is therefore the last year that dwelling rents will be reduced. The proposed Rent Directions from 2020 permits rents to increase by CPI+1% each year, for a period of at least five years.

24. Dwelling Rents for 2019-20 have been determined by the Assistant Director (Housing) and the Director (Corporate Services), in accordance with the Housing Act 1985 and under delegated authority as set out at Annex 1.13B.83 of the Constitution. The rents set are in keeping with the legislative requirements introduced by the Welfare Reform and Work Act 2016 and the announcements in September 2016 regarding rent levels for supported housing.
25. A 1.25% allowance has been made within the budget for an assumed level of rent loss due to void properties, based on actual void levels currently experienced. Universal Credit was implemented in Gravesham in May 2018 and the impact on arrears is being carefully monitored as more cases are transferred. Based on this and experiences of other authorities where Universal Credit was implemented earlier an increase of £70,000 in the debt impairment provision has been made taking the total provision to £362,000.
26. Total expected income received in respect of rents from council dwellings has decreased by £197,300 in comparison to the original 2018-19 budget.
27. Adhering to the new Government rents decrease formula, the authority's average rent will decrease to £87.17 in 2019-20 compared to £87.77 in 2018-19 (the average rent reduction will not be exactly equal to 1% due to re-letting of void properties and additions of properties during the year).

#### **Service Charges, Fees and other Charges**

28. Service charges are levied on Council dwellings to cover a range of services including caretaking services and maintenance of communal areas and communal assets, such as lifts and gardens. Service charges are generally eligible to be met by Housing Benefit, with the exception of charges to individual homes such as heating or lighting within a dwelling.
29. The average weekly service charge for 2019-20 is £3.33. Whilst the capped service charge has been increased by 3.4% (based on CPI at September 2018 +1%), there is a reduction in the average weekly service charge of £0.05 from 2018-19. This is due to the removal of a number of staffing posts from the base budget for 2019-20. Service charges for 2019-20 have been determined by the Assistant Director (Housing) and the Director (Corporate Services), in accordance with the Housing Act 1985 and under delegated authority as set out at Annex 1.13B.83 of the Constitution.
30. Local authorities have the power to decide upon their own charges, though in practice the Government is able to exert a considerable amount of financial pressure through the Housing Benefit system. Through the Rent Rebate Subsidy Limitation mechanism (i.e. the combined rent and service charge figure above which the government will no longer reimburse any housing benefit receivable by the tenant) the authority is limited as to the additional income that could be generated through increasing rents.
31. The Authority's Limit Rent for 2019-20 has not yet been received from the Department of Work and Pensions, but officers are confident that the average combined rent and service charge will be within the limits for the purposes of the subsidy calculation (for indicative purposes the 2018-19 rent cap was £89.44).

**Other Income**

32. The HRA receives income for a number of other sources, primarily as non-dwelling rent.
33. As part of the council's balancing the budget activity, a report was taken to Cabinet in November 2018 setting out additional budget saving/income generation initiatives. This included a summary of fundamental review of the use of council owned garages. Following clarification of a legal position, it has been determined that where such garages or parking spaces are being rented out to non-council tenants, the income and expenditure associated with those assets should be appropriated to the General Fund rather than the HRA as has traditionally been the case in the past. Furthermore, as part of the review it was identified that the rent that is charges should be reviewed. The budgeted income for garages has been reduced by £83,630 in 2019-20 to reflect the transfer of this income to the General Fund.

**Update on other risks to the HRA****Sale of High Value Voids**

34. The Government has cancelled proposals to require local authorities to sell-off high value council housing as a means to fund lower value social housing.

**Shared Ownership Scheme**

35. Government launched the Social Housing Green Paper in August 2018 setting out the intention to boost home ownership by allowing households to buy as little as 1% of their council houses every year under a shared ownership scheme with the local authority or housing association. Currently there is a requirement to buy at least 10%.