

Section One – Housing Revenue Account Budget**Revised Budget 2019-20**

1. During 2019-20, 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 2019) indicates a projected and anticipated deficit for the year of £3,475,220, albeit income and expenditure variances in the last quarter of the year will impact on this figure. This compares closely with the original estimated requirement to draw monies from reserves of £3,509,960 to balance the annual budget, principally to fund the capital programme for the year.

Revenue Budget 2020-21

3. The Original Estimate for 2020-21 represents a balanced budget position, though this has only been achieved through drawing £1,389,600 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 2019-20 (£)	Projected Outturn 2019-20 (£)	Proposed Original Budget 2020-21 (£)
Supervision and Management	5,357,200	5,629,960	6,037,100
Repairs and Maintenance	7,618,140	7,188,140	8,022,810
Depreciation	6,911,810	6,911,810	6,888,800
Intensive Housing Management - Expenditure	667,490	667,490	662,300
Capital Finance	10,189,750	10,450,400	8,516,010
Sub Total Expenditure	30,744,390	30,847,800	30,127,020
Rents of Dwellings	(25,031,400)	(24,910,360)	(25,812,570)
Other Rental Income	(29,300)	(29,300)	(33,550)
Service Charges	(1,399,800)	(1,658,990)	(2,115,620)
Non Dwelling Income	(140,000)	(140,000)	(140,000)
Intensive Housing Management - Income	(521,480)	(521,480)	(521,480)
Other Income	(112,450)	(112,450)	(114,200)
Sub Total Income	(27,234,430)	(27,372,580)	(28,737,420)
Contributions to/(from) reserves	(3,509,960)	(3,475,220)	(1,389,600)
Net Surplus/Deficit	0	0	0

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 2020-21 are set out in the following sections.

Supervision and Management Costs

6. This includes all staffing costs associated with the provision of a housing management service and other running costs such as utilities, maintenance costs, insurance and central support services.

Employee Costs

7. The National Joint Council for local government services have lodged a 2020 pay claim with the National Employers, seeking:
 - a 10% pay increase
 - a one-day increase in annual leave
 - a two-hour reduction in the working week
 - a review of workplace stress and mental health
8. In response to the 2020 pay claim, the National Employers indicated that they would not be in a position to respond to the claim until the outcome of the General Election was known. In the absence of any agreed pay claim, the proposed revenue budget for 2020-21 reflects a 2% pay award for all staff; this is in line with the pay award assumptions of other council's whose pay negotiations are also managed by the National Employers.
9. The Kent Superannuation Fund has recently undergone its triennial revaluation and the draft results have been shared with key stakeholders. The review will set the ongoing employer's contribution rate from 1 April 2020 as well as the level of back funding contributions. The draft figures represent 2020-21 employer contributions for Gravesham being some £30,000 more than 2019-20 levels, with the balance between future services contribution and back funding having been adjusted. This has been incorporated into the proposed budget.
10. A Vacancy Allowance of £100,000 has been retained for the Housing Revenue Account.

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. Activity to develop the operations of the repairs and maintenance function will continue during 2020-21, with specific areas of work focusing on the cyclical works programme and estate improvement and repair works, ensuring these are effectively planned and resourced.
13. Budgeted spend represents an average spend per property in 2020-21 of £1,410.

Depreciation

14. 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.

15. Based on the stock valuation as at 1 April 2019, there is a reduction in the depreciation charge for 2020-21 of some £23,000.

Intensive Housing Management Programme

16. The Intensive Management programme assists in delivering the council's commitment to provide housing-related support to vulnerable groups, enabling them to maintain their independence and remain in their home.
17. The budgeted expenditure for the Intensive Management programme in 2019-20 is £662,300. 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 £140,820 for 2020-21.

Capital Financing

18. The council will be making a further loan repayment of £5.418m in 2019-20 in accordance with the Optimum Loans Portfolio determined as part of the self-financing settlement. The interest due on HRA loans is £2.423m
19. 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 2020-21 the council will be required to make a contribution from revenue of £525,940 for capital purposes.

Rent from Dwellings

20. In February 2019 government confirmed its intention to set a long term rent deal for social housing landlords in England. This new policy permits annual rent increases on both social rent and affordable rent properties of up to consumer price index (CPI) plus one percentage point from 2020, for a period of at least five years. The subsequent Rent Standard issued by the Regulator of Social Housing in respect of 2020-21 confirmed that rents could increase by CPI+1% from 1 April 2020 (where CPI is measured at September 2019).
21. Dwelling Rents for 2020-21 will increase by 2.7%. Dwelling Rent levels 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.
22. 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.
23. Universal Credit was implemented in Gravesham in May 2018 and the impact on arrears continues to be carefully monitored as more cases are transferred. Based on this monitoring and the level of rent arrears at the time of preparing the budget, an increase of £14,000 in the debt impairment provision has been made taking the total provision in 2020-21 to £376,000.
24. Total expected income received in respect of rents from council dwellings has increased by £795,170 in comparison to the original 2019-20 budget.

25. The authority's average social rent will increase to £89.96 per week in 2020-21, compared to £87.17 per week in 2019-20. The average affordable rent will increase to £159.41 per week (the average rent increase will not be exactly equal to 1.7% due to re-letting of void properties and additions of properties during the year).

Service Charges, Fees and other Charges

26. 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.
27. The average weekly service charge for 2020-21 will be £3.63 per week (currently £3.39). The capped service charge has been increased by 2.7% (based on CPI at September 2019 +1). Service charges for 2020-21 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.
28. As the new Rent Standard applies to Local Authority rent increases in the same way as other social rented sector rents, there is no longer a need to apply a Rent Rebate Subsidy Limitation mechanism (RRSL) in England to ensure that Local Authority rent increases (the combined rent and service charge figure) do not exceed formula rents.
29. The Income-related Benefits (Subsidy to Authorities) Order 1998 will be amended to remove the RRSL provision, for England only, in the 2020 Subsidy Order Amendment (to come into force in Autumn 2020). This will legislate the removal of limiting of rent in HB subsidy from 1 April 2020.

Other Income

30. The HRA receives income for a number of other sources, primarily as non-dwelling rent. This will include, but is not limited to, income from lettings and investment returns.

Update on other risks to the HRA

31. Like other social landlords, the council were required to follow the provisions within the Welfare Reform and Work Act 2016 and reduce rents by 1% each year from April 2016 to April 2019 inclusive (i.e. for financial years 2016-17 to 2019-20). Whilst this rent reduction period will end and rent increases will return to CPI + 1% with effect from April 2020, this has had a significant impact on the financial position of the HRA, with it receiving an estimated £6m less income over the four year period and also a compounding reduction on the level of rental income that will be generated in future years. During 2020-21 an officer group will be established to progress a number of strands of work as a means to support the ongoing financial stability of the Housing Revenue Account.