BARNSLEY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan

Joint Report of the Executive Director Core and the Executive Director Place

HOUSING REVENUE ACCOUNT – DRAFT BUDGET 2019/20 & HOUSING CAPITAL INVESTMENT PROGRAMME 2019-2024

1. Purpose of report

1.1 This report provides a summary of:-

(i) The Housing Revenue Account (HRA) draft budget for 2019/20 (Section 4);
(ii) The HRA Medium Term Financial Strategy (MTFS) (Section 5);
(iii) The HRA 30 Year Business Plan (Section 6);
(iv) Use of the HRA Reserves and Berneslai Homes Surplus (Section 7); and
(v) The 2019 to 2024 proposed capital investment programme (Section 8).

2. Recommendations

It is recommended that:

(i) the Housing Revenue Account Draft Budget for 2019/20 be approved, with any final amendments / additions being delegated to the Cabinet Spokesperson for Place and the Executive Director for Place in consultation with the Cabinet Spokesman for Core Services and the Service Director - Finance (S151);

(ii) a rent reduction in line with Government's rent policy be approved;

(iii) there is no proposed change to non-dwelling rents, service charges and heating charges;

(iv) the 2019/20 Berneslai Homes Management Fee at paragraph 4.17 is approved with any final amendments / additions delegated to the Cabinet Spokesperson for Place and the Service Director, Culture & Housing in consultation with the Cabinet Spokesman for Core Services and the Service Director - Finance (S151);

(v) the 2019/20 Berneslai Homes Management Fee for Gypsy & Traveller Sites, charged to the Authority's General Fund, at paragraph 4.20 is approved;

(vi) the HRA Medium Term Financial Strategy as set out in Section 5 and Appendix B be noted;

(vii) the 30 HRA Business Plan as set out in Section 6 be noted;

(viii) the HRA Reserves Strategy, outlined in Section 7 be noted;

(ix) Cabinet approve the proposed increase in the HRA minimum working balance to £5.2M (paragraph 7.9 refers);

(x) the Council Housing Capital Investment programme for 2019/20 be approved and the indicative programme for 2020/21 through 2023-24, outlined in Section 8 be noted;

(xi) Cabinet approve, in principle, the Housing Growth Investment schemes, funded from a combination of HRA Reserves and BH Surplus, as detailed in Appendix E. (Subject to individual reports in line with the Council's governance arrangements); and

(xii) individual housing growth schemes are subject to the appropriate planning regulations.

3. Introduction

3.1 This report sets out the proposed 2019/20 HRA draft budget, the HRA Medium Term Financial Strategy including use of HRA reserves, and the 2019/20 through 2023/24 Housing Capital Investment Programme.

3.2 The responsibility for financial management and monitoring of the HRA transferred back to the Authority from Berneslai Homes' finance team, effective from the 1st April 2018.

3.3 Upon transfer, a fundamental review was undertaken reflecting the Council's social landlord responsibilities together with the Council's wider strategic housing aspirations. This was set within the overall context of nationally emerging issues such as the implications developing from the Social Housing Green Paper, the impact of the full roll out of Universal Credit and the impact moving forwards of both the change in use of 1-4-1 receipts and the abolishment of the HRA debt cap.

4. Draft 2019/20 HRA Revenue Budget and Framework for 2020/21 Budget

2019/20 Key Budget Assumptions

4.1 A number of assumptions have been built into the 2019/20 budget, the key areas are summarised below:

- Average housing stock of 18,306 dwellings;
- No requirement for new external borrowing;
- 3.0% of rent income for the bad debt provision;
- 1.05% rent loss due to voids;
- 2.0% CPI inflation rate.

Rent Policy

4.2 On the 8th July 2015, the Government made an announcement to reduce social housing rents by 1% per annum for the four years, 2016/17 through 2019/20. Rent income forecasts had previously been based on a rent increase formula of CPI plus 1%. It is estimated that this policy decision amounts to a reduction in rental income from 2018/19 to 2019/20 of £1.1M.

4.3 The 1% rent decrease leads to an average rent decrease across the entire housing stock of £0.87p per week for 2019/20.

4.4 More fundamentally, there is a compounding effect on the HRA as a result of the policy change explained above. The table below shows the indicative cumulative effect of the 1% reduction in rents against what was originally planned (CPI + 1%) but does not take account of other changes to the rent calculation such as changes to stock numbers and is therefore purely for illustrative purposes only.

Financial Year	Rent Based on Original Assumptions (CPI + 1%) (Compounded)	Revised Rent Based on Policy (Reduction of 1%) (Compounded)	Cumulative Approximate Loss of Rent
	£M	£M	£M
2015/16 (Base Year)	71.9		-
2016/17	74.0	71.2	(2.8)
2017/18	76.3	70.5	(5.8)
2018/19	78.6	69.8	(8.8)
2019/20	80.9	69.1	(11.8)

4.5 The above demonstrates the cumulative impact on the rental income and therefore spending power of the HRA with an indicative £11.8M reduction in income when compared to the projected rents levels prior to the Government's announcement in 2015.

4.6 The proposed average rent for the various types of properties, for 2019/20 are as follows:

Property Type	Number of Beds	Average Rent per Week (Based on 48 Week Bills)	
		2018/19 £	2019/20 £
Bedsit	0	58.54	57.95
Flat	0	59.86	59.26
	1	68.07	67.39
	2	76.44	75.68
	3	82.24	81.42
Bungalow	1	69.38	68.69
	2	78.70	77.91
	3	90.79	89.88
	4	120.93	119.72
House	1	71.74	71.02
	2	79.22	78.43
	3	84.62	83.77
	4	91.91	90.99
	5	103.27	102.24
	6	119.43	118.24
Maisonette	3	85.31	84.46

4.7 The Government has confirmed that dwelling rents, from 2020/21, will be permitted to increase by a maximum of the rate of Consumer Price Index (CPI) in the September prior to the forthcoming financial year, plus 1% for the

5 year period through to 2024/25. The full increase has been factored into the HRA Medium Term Financial Strategy (Section 5 refers).

Non-Dwelling Rent, Service Charges and Heating Charges

4.8 It is proposed that no changes are applied to the current level of non-dwelling rents, service charges and heating charges respectively over the two year period to 2020/21. The associated costs in providing such services within the HRA have not materially changed since 2018/19, therefore no changes are proposed as a result.

4.9 These charges will be the subject of a detailed review during 2019/20.

Repairs & Maintenance

4.10 The HRA is charged with the annual cost of repairs and maintenance on the Authority's Council Dwellings. The Authority is currently contracted to the Housing Property Repairs and Improvement Partnership (PRIP) which is the all-encompassing contract for all repairs and maintenance, both of revenue and capital in nature.

4.11 The current contract is split in value between Berneslai Homes Construction Services (2/3rds) and Kier Construction (1/3rd). The current contract is due for renewal on the 1st April 2020, therefore Council officers are reviewing the requirements moving forwards and will report into Cabinet in due course.

4.12 The review / re-procurement exercise is expected to have the potential to result in a significant change in the repairs expenditure within the HRA for 2020/21 and beyond.

4.13 The budgeted revenue repairs and maintenance is estimated to be £19.140M for 2019/20 and indicatively £19.344M for 2020/21 and is detailed below, together with a reconciliation from the 2018/19 approved budget.

	2019/20 £	**2020/21 £**
Original Repairs & Maintenance Budget 2018/19	**19,788,960**	**19,140,030**
<u>Fall Out of One Off's</u>		
Legionella Testing	(277,500)	-
Domestic Electrical Testing	(550,000)	-
PRIP Procurement / Tender Costs	(70,000)	(60,000)
	(897,500)	**(60,000)**
Inflation Applied	375,491	379,297
Adjustment for Reduction in Housing Stock	(116,921)	(115,175)
	258,570	**264,122**
<u>Savings Proposals</u>		
NPS Admin Fee Efficiencies (HRA 3 – Appendix C)	(10,000)	-
	(10,000)	**-**
Proposed Repairs & Maintenance Budget	**19,140,030**	**19,344,152**

HRA Management Costs

4.14 The cost of the management of the HRA function represents the overall cost to the Authority of being a corporate landlord and ultimately having responsibility for the HRA. There are two main elements that make up this cost:

- The cost of services provided by the Authority's ALMO, (Berneslai Homes) to the HRA, together with the cost in respect of the administration of the ALMO, known as the BH Management Fee, commissioned by the Council; and
- Direct services provided to the HRA by the Authority, commissioned by the Council.

4.15 A review of the component parts of the BH management fee has been undertaken following transfer of the financial management responsibility to the Council's finance team, ultimately with the overall aim of reinforcing and making explicit, the split between the respective commissioning and delivery components.

4.16 The outcome of this review firmed up the existing arrangements that the Council is commissioner for all services in respect of the HRA with some services procured from Berneslai Homes, certain services procured from the Council's General Fund and some services sourced from external partners. Berneslai Homes, as contractor for those services and as a company its own right, also commissions services externally, including from the Council's General Fund e.g. Fleet Services.

Berneslai Homes Management Fee

4.17 The proposed Berneslai Homes Management Fee is estimated at £11.716M for 2019/20 and indicatively £11.951M in 2020/21 and is detailed in the table below, together with a reconciliation from the 2018/19 fee:

	2019/20 £	2020/21 £
Original BH Management Fee 2018/19	**13,778,380**	**11,716,375**
Fixed / Ongoing Costs		
Pay Award & Increments	271,368	234,328
Increase in Recharge for SharePoint	20,000	-
Other Inflation	52,100	-
	343,468	**234,328**
Revision to Charging Mechanism		
Grounds Maintenance	(1,266,640)	-
Barnsley Connects	(795,680)	-
IT Budget	282,600	-
Strategic Housing & Finance	(213,673)	-
	(1,993,393)	**-**
Savings Proposals		
HRA 1 - BH Zero Based Budget Review	(205,340)	-
HRA 2 - Customer & Estates Services Restructure	(206,740)	-
	(412,080)	**-**
Proposed BH Management Fee	**11,716,375**	**11,950,703**

4.18 The review into the charging mechanism, as explained in paragraphs 4.15 to 4.16 has concluded that certain charges, which previously went through the Berneslai Homes management fee, will now be a direct charge to the HRA. There are a number of these but the significant ones are the charges for grounds maintenance and Barnsley Connects respectively, which are now proposed to be charged directly to the HRA. This is on the basis that the HRA (The Council) is the commissioner of such services, with Berneslai Homes performance managing those commissioned services on the Council's behalf.

4.19 As a result of the review, the BH management fee has been reduced overall by a total of £68,612.

4.20 In addition to the management fee above, Berneslai Homes are proposing to charge the Council's General Fund for the management of the Gypsy & Traveller sites in the Borough, totalling £0.063M for 2019/20 (£0.062M in 2018/19).

Other Supervision, Management & Special Services

4.21 The proposed suite of recharges to the HRA directly from the General Fund for services directly provided is estimated at £5.180M for 2019/20 and is detailed in the table below, together with a reconciliation to the 2018/19 budget:

	2019/20 £	**2020/21 £**
Original Other Supervision, Management & Special Services 2018/19	**2,667,290**	**5,179,741**
Fixed / Ongoing Costs		
Inflation on General Fund Services	62,189	93,401
Other	39,586	-
	101,775	**93,401**
Revision to Charging Mechanism (See 4.17 / 4.18)	1,993,393	**-**
	1,993,393	**-**
Investment & Other Policy Decisions		
Review of Cost Sharing Arrangements		
Grounds Maintenance	132,283	-
Community Safety	125,000	125,000
Right to Buy Team	80,000	-
Homelessness	80,000	80,000
Homelessness Act	-	124,500
	417,283	**329,500**
Proposed Other Supervision, Management & Special Services	**5,179,741**	**5,602,642**

4.22 As part of the Housing Review undertaken earlier this year, part of the analysis reviewed the current cost sharing arrangements to ensure an fair and equitable split was still maintained between General Fund and HRA, the results of which are shown in the table above.

Bad Debts Provision

4.23 The HRA provides a budgetary provision for a proportion of the dwelling rent due that is expected to be non-collectable. The 2018/19 budget for this totalled £1.033M which represented 1.5% of gross rents for that year. The proposed budgets for 2019/20 and 2020/21 have been reviewed in light of the increase in tenants that are transitioning to Universal Credit (UC).

4.24 There is currently evidence from the 2018/19 performance on rent collection arrears to suggest that tenants that have been moved on to UC are accumulating larger levels of arrears when compared to non UC tenants. This is exemplified by the statistics in the table below:

Measure	2017/18	2018/19	
	Full Year	Q1	Q2
Total Arrears (Current Tenants)			
UC Arrears	462,324	577,359	673,450
Non UC Arrears	859,872	878,648	839,152
Total	**1,322,196**	**1,456,007**	**1,512,602**
Average Rent Arrears (Current Tenants)			
UC	£533.86	£499.01	£504.84
Non UC	£133.17	£142.06	£155.46
Overall	**£180.55**	**£198.31**	**£224.69**

4.25 In respect of the total arrears from current tenants, the statistics show that these are steadily climbing quarter on quarter which predominantly relates to the increase in UC arrears across the period. By contrast, arrears for non UC arrears have remained relatively static.

4.26 With regards to the average arrears accumulated per tenant, the tenants on UC have accumulated over 3 times as many arrears as non UC tenants (£504.84 compared to £155.46) indicates the gap between the two elements of arrears.

4.27 Therefore, the provision has been prudently increased to 3% of gross rents, equating to £2.035M in 2019/20 and indicatively £2.083M in 2020/21. This will be the subject of a detailed review as Universal Credit is further rolled out to tenants.

Contribution to Capital

4.28 The HRA budget includes an annual contribution to fund its capital investment programme which is predominately maintains the Council's housing stock at decency – at the Barnsley Homes Standard.

4.29 The annual contributions are factored into the HRA 30 year business plan to ensure affordability over the period. Any unused balances are held in the Major Repairs Reserves until capital expenditure is incurred in the future.

	2019/20 £	2020/21 £
Original Contribution to Capital 2018/19	**21,327,180**	**20,737,258**
<u>Investment & Other Policy Decisions</u>		
Allowance for Inflationary Effects	560,078	550,375
	560,078	**550,375**
<u>Savings Proposals</u>		
HRA 4 - Review of Damp Proof Course Requirement	(1,150,000)	-
	(1,150,000)	**-**
Proposed Contribution to Capital	**20,737,258**	**21,287,633**

4.30 For reference, in Appendix A, the contribution to capital is made up of two lines, Line 11 - Depreciation of Fixed Assets and Line 18 - Transfer to/from Major Repairs Reserve which reflects the statutory reporting measures that the HRA has to follow. The table below summaries this position for the period:

	2018/19 £	2019/20 £	2020/21 £
Depreciation of Fixed Assets	14,456,800	16,556,000	16,556,000
Transfer to/from Major Repairs Reserve	6,870,380	4,181,258	4,731,633
Total Contribution to Capital	**21,327,180**	**20,737,258**	**21,287,633**

4.31 The contribution to capital in the revenue budget is uplifted annually to account for the inflationary effect on prices within the capital programme.

4.32 Following a review of the current capital programme requirements by officers, the anticipated spend on damp proofing has been prudently reduced over the 30 years on the basis of assumed need. As a result, the savings proposal totalling £1.150M has been taken in full.

<u>Voluntary Repayment of Debt</u>

4.33 Since the Self Financing Regulations were implemented and the Council's HRA 'bought out' of the subsidy system, the assumed debt incurred as a result has been voluntarily "repaid" on an annual with a sum totalling £2.110M included in the 2018/19 budget.

4.34 This setting aside of resources to repay debt is not a statutory / regulatory requirement under the Self Financing regime. The primary purpose for doing so was to reduce the outstanding debt to give increased headroom against the HRA debt cap which would have ultimately allowed the Authority more scope for borrowing to fund housing growth moving forward.

4.35 Since this time, the Government has confirmed the removal of debt caps for all housing authorities to enforce the commitment to the sector in respect of supporting the stimulation of the housing market and recognition of the housing issues local authorities currently face.

4.36 As a result, and after a review of the HRA's debt, the Section 151 Officer has determined that the HRA debt is supportable as the asset base (Council Dwellings) is maintaining the income streams on a sustainable basis.

	2019/20 £	2020/21 £
Original Voluntary Repayment of Debt 2018/19	**2,109,680**	**-**
Savings Proposals		
HRA 5 - Reduce Voluntary MRP	(2,109,680)	-
	(2,109,680)	**-**
Proposed Voluntary Repayment of Debt	**-**	**-**

2019/20 Efficiency Savings

4.37 Berneslai Homes and BMBC were tasked with finding £2M worth of efficiencies each for this budget process, which then gives flexibility and choice to address the gap over the two year period. The savings proposals that have been taken to address the gap total £3.682M and are detailed in Appendix C.

4.38 These savings proposals have been factored into the 2019/20 budget papers as outlined throughout section 4 which has meant that the HRA has been able to set a balanced 2019/20 budget position with a framework to deliver a balanced budget in 2020/21 at this early stage in the planning process.

4.39 The full draft HRA budget is shown in detail at Appendix A to this report.

5. HRA Medium Term Financial Strategy (MTFS)

5.1 The HRA Medium Term Financial Strategy provides a projection of the medium term position of the HRA for the three years following this budget cycle (2020/21 through 2022/23).

5.2 The table below outlines the changes in assumptions etc. since the last update. This presentation and format is distinctly different from previous HRA budget papers to align to the methodology used on the Council's General Fund MTFS.

		2020/21 £M		2021/22 £M		2022/23 £M
Opening Forecast Deficit / (Surplus)		**-**		**(0.094)**		**(0.378)**
Sub Total - Fixed & Ongoing Costs		***1.189***		***1.282***		***0.414***
Sub Total - Investments & Other Policy Decisions		***0.330***		***-***		***-***
Sub Total - Income		***(1.613)***		***(1.566)***		***(1.298)***
Revised Forecast as at November 2018 (pre efficiencies)		**(0.094)**		**(0.378)**		**(1.262)**

5.3 Appendix B provides the detail behind the table above but the salient points are discussed below:

Fixed & Ongoing Costs

Fixed and ongoing costs in the MTFS context relate to cost pressures that are created as a result of uncontrollable circumstances that are generally out of the control of the Authority such as inflationary effects and Government policy changes.

The significant element of fixed and ongoing costs in respect of the HRA relates to assumed inflationary pressures on costs such as the BH Management Fee and the Repairs and Maintenance budget.

Investment & Other Policy Decisions

Investment and other policy decisions in the MTFS context ordinarily relate to changes in costs as a direct result of an investment decision made by the Council.

Income

The income part of the MTFS relates to the income streams to the HRA, specifically around the change in rent, which is dictated by Government Policy. Other incidences in here relate to grants falling out and other income changes.

5.4 The current position in terms of the forecast, is estimated to be a budget surplus for the MTFS period (2020/21 to 2022/23).

5.5 The strategy to address any forecast deficits on the HRA moving forwards will align to the process on the general fund budget insofar that savings proposals will be sought from a combination of both the ‘service’ (Berneslai Homes) and any corporate decisions in terms of potential efficiencies.

6. The HRA 30 Year Business Plan

6.1 There is no longer a regulatory requirement to maintain a 30 year business plan, though it is considered good practice to allow authorities to ensure that the plans approved over the MTFS period are sustainable over the longer term, from both the revenue and capital perspectives. It also gives an indication of any issues moving forwards that can be planned for early in the process.

6.2 The Business Plan is based on a wide variety of assumptions on each budget head, the significant ones being in respect of future estimated inflation rates, the expectations regarding the Government’s rent policy moving forwards and the potential impact of the Government’s recently published Green Paper on the future of social housing, particularly around, amongst others, the potential implications of increasing the decency standard and inclusion of fire safety precautionary work on a mandatory basis.

6.3 Clearly, the future is relatively uncertain in terms of external factors i.e. Brexit, which will have an impact on these assumptions, therefore it’s important to regularly update the 30 year plan to take account of these potential impacts.

6.4 The business plan is updated periodically to reflect changes to assumptions etc. to ensure that the delivery of the HRA is sustainable and affordable.

6.5 A more rigorous and fundamental review of the assumptions within the business plan is due to take place during 2019/20.

7. The HRA Reserves / Berneslai Homes Surplus Strategy

7.1 The HRA has accumulated a level of reserves totalling £41.5M as at the end of the 2017/18 financial year. A review of the existing HRA reserves has been undertaken by the Council's Section 151 Officer and have been reprioritised accordingly.

7.2 Berneslai Homes has also accumulated surpluses over the period of trading. The Council has decided to utilise an amount totalling £8.9M for use on Future Council priorities.

7.3 The table below shows the breakdown of these reserves (post reprioritisation), together with commentary in paragraphs 7.4 – 7.11 around the detail.

	As at 1st April 2018 £M	
HRA Reserves Position	**41.5**	
Earmarked For:		
Capital Programme Reserve	9.3	Para. 7.4
Housing Growth Reserve	20.4	Para. 7.5
Welfare Reform Reserve	3.0	Para. 7.6
New Build Bungalows Reserve	2.3	Para. 7.7
Budget Development Reserve	0.5	Para. 7.8
Minimum Working Balance	5.2	Para. 7.9
Uncommitted - Pending Review of 30 Year Capital Plan	0.8	Para. 7.10
Total	**41.5**	
Berneslai Homes Surpluses	**8.9**	Para. 7.11
Total	**50.4**	

7.4 Capital Programme Reserve (£9.3M)

The capital programme reserve is held to fund elements of the current capital programme commitments that have been delayed between financial years. The 30 year business plan review, due to commence during 2019/20 will analyse the methodology of this reserve in the context of the overall capital programme. The current expectation is that this reserve will be expended over the next two financial years (2019/20 and 2020/21).

7.5 Housing Growth Reserve (£20.4M)

As part of the 2016/17 budget papers (Cab.16.12.2015/9 refers), a review was undertaken of the accumulated reserves within the Housing Revenue Account.

A sum totalling £14.3M was identified to be used on Housing Growth, aimed at stimulating the Borough's housing market.

In addition, following a further review of the 2017/18 statutory financial accounts, an amount totalling £4.9M was identified as being available for investment. This was formally approved in the 2018/19 budget papers (Cab.10.01.2018/10 refers).

The 2017/18 outturn position resulted in a further improvement to the reserves position totalling £1.4M which brought the total resources to £20.6M. During 2017/18, £0.2M was used on housing growth schemes, leaving £20.4M remaining.

The housing capital priority schemes have been determined and are included in these budget papers for approval in principle by Cabinet. The estimated call on this reserve is an estimated £18.9M across the next 3 financial years split between capital (£18.6M) and revenue (£0.3M) projects, leaving £1.5M uncommitted at this time.

The individual schemes are shown in Appendix E.

7.6 Welfare Reform Reserve (£3.0M)

The Welfare Reform Reserve has been set aside to mitigate the anticipated impact of the implementation of the Universal Credit system to tenants in the Borough. The reserve is periodically reviewed, alongside the budgetary provision for bad debts, to assess the requirement moving forwards.

7.7 New Build Bungalows Reserve (£2.3M)

The New Build Bungalows Reserve was set aside by the 2017/18 Budget Papers (Cab.11.1.2017/9 refers) for the purpose of funding specific schemes in the capital programme relating to new build bungalows. It is expected that this reserve will be expended over the next two financial years (2019/20 and 2020/21) as the capital schemes reach completion.

7.8 Budget Development Reserve (£0.5M)

The Budget Development Reserve was set aside in the 2018/19 Budget Papers (Cab.10.1.2018/10 refers) and relates to specific work programmes in relation to domestic electrical testing and legionella risk assessments. It is expected that this reserve will be expended in the 2018/19 financial year.

7.9 Minimum Working Balance (£5.2M)

The minimum working balance is held in reserve as a contingency for unforeseen events. It is proposed to increase the level of this contingency reserve by £1.7M to a revised total of £5.2M given the uncertain economic environment in which the HRA operates. This revised amount represents approximately 7.5% of the dwelling rents budget and will be reviewed periodically to assess its suitability.

7.10 Uncommitted – Pending Review of 30 Year Capital Plan (£0.8M)

An amount totalling £2.5M was previously held as mitigation of the proposal by the Government relating to the enforced sale of high value voids, to be implemented as part of the Housing and Planning Act 2016. However, in August 2018, the Government released a Green Paper on Social Housing which stated that they were not bringing in the requirement of the legislation and are looking to repeal this when Parliamentary time allows.

The Section 151 Officer has proposed that £1.7M of this amount is to be used on increasing the minimum working balance to £5.2M (see paragraph 7.9 above) with the remainder (£0.8M) being held pending a review of the 30 year capital plan.

7.11 Available Berneslai Homes Surpluses (£8.9M)

As part of the 2017/18 HRA budget papers (Cab.10.01.2018/10 refers), resources totalling £7.5M were identified within the accumulated Berneslai Homes surplus that were unallocated and therefore available for the Council to use on its strategic priorities.

The 2017/18 profit figure resulted in a further improvement to the reserves position totalling £1.4M.

Therefore, there is an amount totalling £8.9M available for consideration.

A number of capital priority schemes (including housing specific schemes) have been determined and are included within these budget papers for approval in principle by Cabinet. The estimated call on Berneslai Homes' Surplus is an estimated £8.7M across the next 3 financial years, including contribution towards HRA capital schemes (£3.7M), which are shown in Appendix E.

8. 2019/24 Council Housing Investment Programme

8.1 The proposed 2019/20 capital programme totals £35.9M with the following 4 year period through to 2023/24 estimated to cost an indicative £92.8M, bringing the total to £128.7M.

8.2 Core Programme – Barnsley Homes Standard (BHS)

The aim of the core investment programme is to maintain the council housing stock in Barnsley at decency standards as determined by the Homes and Communities Agency Home Standard which is a regulatory requirement for all local authorities. This is the Barnsley Homes Standard and Appendix D details the five year programme and the resources available for investment.

The table below summarises the Barnsley Homes Standard programme for 2019/20:

Barnsley Homes Standard:	**£M**
Core Programme	12.950
Elemental Gas Heating Replacement	1.000
Re-roofing Elemental	2.000
Total	**15.950**

(Appendix D)

8.3 The 2019-24 Barnsley Homes Standard budget is kept at a level to keep properties from falling into non decency. This programme targets those properties where, through the passage of time, elements such as kitchens; bathrooms; heating systems; windows and external doors are worn out and need replacing. Investment in the council housing stock ensures properties remain lettable and the rental income ensures the viability of the HRA. The level of investment proposed for 2019/20 totals £12.950M.

8.4 Consideration has also been given to the profile of anticipated replacement of components where there is a 'spike' in future years, particularly over the medium term to identify where works can be brought forward to alleviate future pressures, within the budgetary envelope available. Therefore, there are two elemental programmes included in the BHS budget for 2019/20, over and above the planned programme of the BHS cycle and are discussed below.

8.5 Barnsley Homes Standard – Elemental Gas Heating Replacement Scheme

The proposed scheme is a programme of 350 new gas combination boilers and distribution systems where required, at an estimated cost of £1.000M including professional fees. They will replace old gas back and combination boilers. Typically installations will be at or near the home standard failure date of 16 years for a boiler and 40 years for a distribution system. The installations will be spread across the Borough and criteria for selection will be worst first. This programme is additional to the main home standard programme above which will see central heating systems replaced in up to 1,288 properties where needed.

8.6 Barnsley Homes Standard – Re-roofing Elemental Scheme

The proposed scheme is a programme of 336 roofs being replaced where required, at an estimated cost of £2.000M including fees. Specific properties in 3 distinct geographical areas of the Borough have identified where the roofs, condition is poor and responsive repairs costs are high. All of these roofs fall outside the government Decent Homes' life span of roof coverings of 50 years for a house and 30 years for flats. These properties are situated in Honeywell, Broadway and Kingstone. These properties are not identified as requiring more extensive Barnsley Homes Standard works at this time and an elemental programme is therefore proposed.

8.7 Non Barnsley Homes Standard Works – Heating Works

The Heating Works budget consists of two elements and is for urgent one off central heating replacement in individual homes, when they cannot be repaired following a breakdown and planned works to District Heating Networks. The proposed budget for 2019/20 totals £1.081M.

8.8 Non Barnsley Homes Standard Works – Replacement Items

The Replacement Items budget relates to one off, reactive replacement of components in individual homes where the item is beyond repair and cannot wait for a future Home Standard Scheme. Such works are batched together and released to partner contractors monthly, to improve both cost and efficiency with an agreed batch price. The proposed budget for 2019/20 totals £1.539M.

8.9 Non Barnsley Homes Standard Works – Major Adaptations

The Major Adaptations budget relates to adaption works carried out at individual homes, following referral by the South West Yorkshire Financial Trust (SWYFT) who undertakes assessment on behalf of the Council. Typically, these are for items such as level access showers, ramps, stair lifts and a small number of extensions. All requests are assessed by the Council's Equipment and Adaptations Service. The proposed budget for 2019/20 totals £2.007M.

8.10 Non Barnsley Homes Standard Works – Structural Extensive Works

The Structural Extensive Works budget relates to structural works to individual tenanted properties, for example major damp problems or roof structural failure and major works to void properties that cannot be let without the work being carried out. The proposed budget for 2019/20 totals £1.685M.

8.11 Non Barnsley Homes Standard Works – Other

There a number of minor schemes such as the Community Centre Refurbishment scheme that are included for approval, totalling an estimated £0.648M in 2019/20.

8.12 Housing Growth Investment

In addition to the Core Programme, there are a number of schemes that have been approved that are specifically designed to stimulate and contribute towards housing growth of the Borough's social housing stock. Investment in further New Build and acquisitions helps to offset the stock loss and subsequent rent income loss from sales through RTB's, helping the sustainability of the HRA. Investment in such schemes have been categorised into 3 broad themes:

- New Build – These schemes relate to the construction of dwellings;
- Acquisitions – These schemes relate to the purchase of dwellings, either through S106 powers or currently vacant properties; and
- Other – These schemes include conversions and supported housing projects.

8.13 These schemes have been specifically prioritised from a number of proposals, based on a scoring mechanism that links to the Council's overall objectives with the chosen schemes considered against the available one off resources that are identified and are available at that point.

8.14 The current suite of housing growth investment programme schemes for approval in principle as part of this report (Recommendation XI and Appendix E refers) have been compiled in line with the process outlined above. These schemes are due to be developed, started and ultimately delivered over the medium term to approximately 2020/21.

8.15 Individual approvals will be sought for each of the respective scheme, in line with the Council's governance arrangements.

8.16 Each individual scheme will be subject to the appropriate planning regulations, which will be duly considered by the Planning Regulatory Board which take into account national and local planning policies, and the relevant legislation.

8.17 Specific funding has been identified for these schemes which are made up of HRA Reserves (paragraph 7.5 refers) and Berneslai Homes Surplus (paragraph 7.11 refers) and also shown on Appendix E.

8.18 For the period post 2020/21, schemes are currently being developed in line with the Housing Strategy to form an ongoing capital programme. This pipeline of priority housing schemes will be assessed against both the anticipated resources identified as part of future budget processes and in year budget monitoring that develops throughout the financial year, within the context of the Government's announcement in to remove the Debt Cap imposed on HRAs.

9. Specific Funding Issues – Housing Growth

9.1 The proposed investment in acquisitions and new build will enable the Council to utilise its '1-4-1' receipts generated from the sale of Council dwellings though 'Right to Buy (RTB). These receipts can be used to invest in eligible new build schemes and acquisitions but must be spent within 3 years or be returned back to the Government. In addition, the 1-4-1 contribution can only represent 30% of the total cost of the investment; the other 70% is required from other HRA capital resources and cannot be match funded with any other government grant.

9.2 Investment in further New Build and acquisitions helps to offset the stock loss and subsequent rent income loss from sales through RTB's, helping the sustainability of the HRA.

9.3 In October 2018, the Government announced that the borrowing cap applied to HRAs across the country was to be scrapped.

Consideration will be therefore taken by the S151 Officer and the Service Director for Housing as to the applicability of borrowing for future housing growth schemes, in line with the Council's overall Treasury Management and Capital Strategies respectively.

10. Consideration of alternative approaches

10.1 The budget has been developed with the aim of ensuring wherever possible that existing approved policies and support of corporate strategies can continue to be delivered. From the many alternative approaches available the package of proposals in this report is considered to best achieve this intention.

11. Proposal and justification

11.1 It is proposed that individual dwelling rents be decreased in line with the Government's rent policy. The capital programme is affordable over the five year period and consistent with the Council's approved Housing Strategy.

12. Implications for local people / service users

12.1 The effective management of the HRA helps to consistently drive forward service improvements for the benefit of both council tenants and the wider community, and ensure investment and maintenance in council housing.

12.2 The capital programme is designed to meet decency standards and has aspects within it to help reduce fuel poverty and to maximise opportunities to invest in affordable warmth initiatives. The major adaptations budget also supports the continued independent living of vulnerable people.

13. Financial implications

13.1 These proposals set a balanced budget for 2019/20 with a framework to achieve a balanced position for 2020/21.

13.2 In respect of the HRA accumulated reserve balance, these proposals look to reprioritise the £2.5M previously set aside for high void sales, to increase the minimum working balance by £1.7M to the required level of £5.2M to reflect the relative uncertainty in the current environment and hold the remaining £0.8M pending the review of the 30 year business plan in 2019/20.

13.3 The total estimated cost of the 2019/24 core capital programme is £129.9M and is affordable over this five year period.

13.4 The total estimated cost of the current Housing Growth Investment capital programme totals £31.2M, which is to be funded by specific resources currently held within the HRA.

13.5 From these budget proposals, service provision to tenants and capital investment to maintain housing stock at decency levels have both been maintained, notwithstanding the context of a 1% rent reduction imposed by Government on the HRA.

14. Employee implications

14.1 Any employee implications will be addressed as detailed scheme proposals are developed and approved.

15. Communications implications

15.1 Communications and Marketing will work in partnership with Berneslai Homes to communicate the outcomes of this report through their established channels.

15.2 Berneslai Homes will use their established channels to engage with their tenants who will be directly affected by the proposed capital works.

15.3 The two partners will look for opportunities to publish joint communications on the numerous investment opportunities highlighted in the report, emphasising how the work fits into the Town Spirit themes.

16. Equality and Inclusion Implications

16.1 The mandatory rent reductions imposed by Central Government from 2016/17 through 2019/20 will continue to benefit social housing tenants who are more likely to be older people, disabled people and single parent families than the population as a whole. The rents are expected to rise from the 2020/21 financial year by up to Consumer Price Index (CPI) plus 1%, which would see potentially an adverse impact on the same groups. The Council has discretion over the level of rent increase up to the cap, as in the body of the report.

17. Consultations

17.1 Discussions have taken place with the Service Director – Finance (S151 Officer) and the Executive Director – Place.

17.2 Consultations with local members on the Barnsley Homes Standard and on any other major capital schemes in their area will continue to take place.

17.3 Consultations on the Council Housing Capital Investment Programme have and will continue to take place with BMBC Planning and Highways, Legal Services, Internal Audit and NPS Barnsley where appropriate.

18. Risk management issues

18.1 In preparing the draft budget for 2019/20 a number of risks have been identified which will require attention during the financial year. Risks have been identified where they would have a significant impact on the ability of the Council and Berneslai Homes to achieve the stated objectives and to ensure a balanced budget at the year-end.

(1) Welfare Reform

18.2 Rent collection rates in the first 6 months of 2018/19 continue to remain strong at 97.33% compared to 98.11% at the same point of time last year. This can be attributed to the excellent efforts in the rent collection team, their flexible approach in supporting tenants to downsize in order to reduce their financial commitments and the team being proactive in helping tenants to claim grants and benefits including discretionary housing payments.

18.3 Welfare Reform continues to be a major risk to the HRA Business Plan, in particular the reduced benefit cap implemented from November 2016 and, the full roll out of the digital Universal Credit (UC) service which went fully live in Barnsley in September 2017. In September 2017, Berneslai Homes were aware of 238 tenants who were in receipt of UC. By the end of September 2018 this had risen to 1,753 tenants with 76% of them being in rent arrears.

18.4 The annual provision for Bad Debts within the HRA Business Plan has been reviewed in light of the delays in the roll out of Universal Credit. The budget has been increased to 3.0% of rental income in 2019/20 (from 1.5% in 2018/19) before reducing to 2% from 2022/23 onwards. This reflects the impact of the roll out of Universal Credit and a return to more normal levels after.

(2) Treasury Management

18.5 With the introduction of self-financing, the HRA exposure to treasury management risk has significantly increased as the protection from increased interest rates provided by the previous Housing subsidy system has ceased. The Council's approach to managing treasury management risk is set out in the Treasury Management Strategy agreed annually as part of the budget process. The types of risk which are most relevant to the HRA are interest rate risk and refinancing risk.

18.6 Council officers will continue to monitor the interest rate environment and take appropriate steps to align to the Council's strategy of de-risking its portfolio.

(3) Right to Buy

18.7 The level of sales through the 'Right to Buy' is greater following Government changes which have made the scheme more attractive through increases to the amount of discount which tenants receive. The current number of sales for 2018/19 totals 94 (as at November) with a further 76 expected by the end of the financial year. The actual number of sales for 2017/18 was 184 compared to 40 sales in 2011/12. Increased sales through 'Right to Buy' remains a burden on the 30 year plan due to the loss of economies of scale, difficulties in downsizing to match new lower income levels and potential restructuring costs. Maintaining stock levels by taking advantage of acquisition and new build opportunities will mitigate against this risk and provide homes for people in housing need.

(4) 1-4-1 Receipts

18.8 1-4-1 receipts are generated from the sale of Council dwellings through Right to Buy (RTB) sales. 1-4-1 receipts can be used to invest in eligible new build schemes and acquisitions but can only represent 30% of the total cost of a scheme, 70% is required from other HRA resources. If RTB numbers increase, the amount of 1-4-1 receipts increases requiring further match funding. 1-4-1 receipts are returned to the Government if they are not spent within 3 years of receipt. The mitigation of this risk is the formulation of a strategy to spend the 1-4-1 receipts within the restrictions.

19. <u>Glossary</u>

Strategic Plan - This document sets out Berneslai Homes' priorities, planned outputs and targets for the coming year and is agreed with the Council.
HRA – Housing Revenue Account
HRA Reserves - The accumulated surplus (excess of income over expenditure) on the Housing Revenue Account
Earmarked Working Balance - Working Balance which is set aside to meet planned future expenditure
PRIP - Property Repairs and Improvement Partnership
MRR - Depreciation Charges to the HRA are transferred to the Major Repairs Reserve pending their use to fund capital schemes

20. List of Appendices

Appendix A – Housing Revenue Account Draft Budget 2019/20
Appendix B – Housing Revenue Account – Medium Term Financial Strategy (MTFS)
Appendix C – Efficiency Savings
Appendix D – Housing Capital Investment Programme 2019/24
Appendix E – Housing Growth Investments

21. Background papers

21.1 Welfare and Work Act 2016

21.2 Housing and Planning Act 2016

21.3 Budget working papers containing exempt information - not available for inspection.

If you would like to inspect background papers for this report, please email governance@barnsley.gov.uk so that appropriate arrangements can be made

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Executive Director – Place
Date: December 2018