Council Report

Ward(s) affected: n/a

Report of Director of Community Services

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Housing Revenue Account Budget 2019-20

Executive Summary

The report outlines the proposed Housing Revenue Account (HRA) budget for 2019-20.

The 2019-20 estimates are predicated on the assumptions, ambitions and priorities contained in the updated HRA business plan (see **Appendix 1**). Since the 2018-19 HRA budget report, there have been three key Government announcements that improve the Council's ability to deliver on its ambitions to increase and improve social housing in the borough. These are to:

- **Remove the HRA borrowing restriction**
  - The Limits on Indebtedness (Revocation) Determination 2018
- **Revert to an index-linked rent setting policy from 1 April 2020**
  - The Direction on the Rent Standard 2018
- **Not implement the enforced sale of higher value council houses**
  - A new deal for social housing August 2018 (Green Paper)

The prevailing social rent policy set out in the Welfare Reform and Work Act 2016 requires social housing providers in England to reduce social rents by 1% per annum for the four years from 1 April 2016. Rents for 2019-20 will therefore be reduced by 1%.

A 3.4% increase in garage rents is proposed from April 2019, based on the Consumer Price Index (CPI) plus 1%.

The report sets out progress with the new build programme, together with the proposed investment programme in tenants' homes.

The estimates continue to be informed by the business plan, which attaches a lower priority to the repayment of debt principal inherited as part of the self-financing HRA settlement.

At its meeting held on 22 January 2019, the Executive considered this report and was informed that 2019-20 would be a 53-week rent year. There was some doubt around how this should be charged but recent advice received from the Local Government Association is that we should follow usual procedures and charge for each week within the year. The

revised budget set out in Appendix 2 reflects the impact of the 53 week rent year.

The Executive therefore resolved as follows:

Subject to Council approving the budget on 26 February 2019:

(1) That the projects forming the HRA major repairs and improvement programme, as set out in Appendix 4 to this report, be approved.

(2) That the Director of Community Services be authorised, in consultation with the Lead Councillor for Housing and Development Management:

   (a) to reallocate funding between approved schemes to make best use of the available resources; and

   (b) to set rents for new developments.

The Executive also endorsed the recommendation to Council below:

Recommendation to Council:

(1) That the revised HRA revenue budget, as set out in Appendix 2 to this report, be approved.

(2) That the 1% rent reduction required by the Welfare Reform and Work Act 2016 be implemented.

(3) That the fees and charges for HRA services, as set out in Appendix 3 to this report, be approved.

(4) That a 3.4% increase in garage rents be approved.

(5) That the Housing Investment Programme as shown in Appendix 5 (current approved and provisional schemes), amended to include bids approved by the Executive at its meeting on 22 January 2019, be approved.

Reasons for Recommendation:
To enable the Council to set the rent charges for HRA property and associated fees and charges, along with authorising the necessary revenue and capital expenditure to implement a budget, this is consistent with the objectives outlined in the HRA Business Plan.

1. Purpose of Report

1.1 This report provides a position statement on the 2019-20 draft budget and makes recommendations to the Executive on both the HRA revenue and capital programme budget.

2. Corporate Plan

2.1 Through the provision of new homes and supporting the less advantaged, this budget delivers on the Place-making and Community themes of our Corporate Plan.

3. Background

3.1 The self-financing arrangements introduced in 2012 enabled the Council to manage its social housing service in the broadest sense. The Housing Revenue Account Business Plan sets the framework upon which the revenue budget and proposed Housing Investment Programme are prepared. This plan sets out our ambitions and priorities for the service.

4. Housing Revenue Account Business Plan

4.1 The resources available following the move to self-financing gave the Council the opportunity to be strategic in its approach to its housing stock for the first time. It was possible, and essential, to not only consider the existing housing stock, but also wider issues such as community development, improving the environment and the need to build new Council homes to address the increasing demand for affordable housing.

4.2 The Business Plan not only concentrates on the financial related strategy and objectives, but also the service priorities of the Council's Landlord function to its tenants and leaseholders. The longer-term perspective is crucial to ensure that the service and its primary assets, the housing stock, are fit for purpose for the whole period of the plan and beyond.

4.3 Over the last year, the Government has made a number of policy announcements that recognise the important role social housing has across our communities. There also appears to be a renewed desire to see local councils play an increased role in the delivery of new homes.

4.4 The announcements are resetting the landscape in which the HRA business operates, and are very much in line with the ambitions this Council has for its communities.

4.5 The Government has clarified three policy areas that have been a threat to the long-term viability of the Housing Revenue Account.

Rent setting policy: From 1 April 2020, there will no longer be a requirement to reduce rents by 1% per annum. There will be a return to the rent policy on which the debt settlement was predicated with the necessary amendments to the Rent Standard already drafted and subject to consultation.

Enforced Sales: The Housing and Planning Act 2016 contained provisions that would require councils to sell off their higher value council homes and return some of the funds raised to the Government. The Government has accepted that this policy was not appropriate when we face increasing housing shortages for lower income households. The Government's green paper; A new deal for social housing, contained the following announcement:

"We have been listening to councils about their concerns that the Government may decide to implement provisions contained in the Housing and Planning Act 2016 which would mean they have to make a payment in respect of their vacant higher value council homes and return some of the funds raised to the Government. Many councils have told us that without knowing for certain whether this policy might be implemented in future years, it is difficult to make long term investment decisions. The Government remains committed to the principle that councils should use their housing assets effectively and should consider selling high value homes and using the funding to build more affordable housing. However, this should be a decision to be made locally, not mandated through legislation and we understand that the

uncertainty around the future of this policy could prevent councils from building. Therefore, to increase councils' confidence to plan ambitious house building programmes, we are confirming in this Green Paper that the Government will not bring the Higher Value Assets provisions of the Housing and Planning Act 2016 into effect."

HRA borrowing: The recent announcement to lift the restriction on HRA borrowing by the Government allows us to consider a more ambitious development programme.

4.6 The impact of welfare reform through the introduction of Universal Credit as currently structured remains a concern. Some of these concerns are increasingly shared at a national level.

4.7 Housing is fundamental to an individual's health and wellbeing. The HRA operates within an increasingly stressed public sector financial environment and we see the impact daily. The intervention threshold for mental health and social services have steadily increased. We are having to attempt to manage the consequences on both tenants and neighbourhoods, which is proving increasingly challenging.

4.8 The Council has now set up North Downs Housing Ltd. Whilst its role is to provide an alternative range of tenures, it offers the opportunity through partnership working to consider a wider range of development opportunities.

4.9 The Council has, through the Community Wellbeing Team and Project Aspire, provided greater support in less advantaged areas. They work closely with Landlord Services.

5. Potential Pressures

5.1 As mentioned, the impact of social and healthcare services on tenants is increasingly evident. The cost of managing tenancies is likely to see upward pressure as we are forced to deal with situations we are less well equipped to manage.

5.2 The funding framework available to meet the cost of supported housing remains fragile. Last year we saw the Supporting People Grant reduce by £168,000 and further reductions are possible.

5.3 The Homeless Reduction Act 2017 has placed greater obligations on the Council. This is coinciding with a steady rise in the number of households at risk. Many of those at greatest risk have not only housing issues but a range of complex needs. Together they are placing greater demands on the Housing Service that in turn flows through to the teams managing our properties.

5.4 The wider social housing sector is becoming increasingly commercial. Some housing associations are focusing on minimising risk by being very selective on who they will house. We are fortunate in having a retained stock, which gives us greater flexibility in helping those in housing need. It however creates a cost pressure.

5.5 The affordability of shared ownership properties is an issue for many. Whilst it enables a resident to join the home ownership ladder, the reality for many is that they are unable to stair-case (acquire further equity shares) or move to a larger property as their household grows. Expanding this stock is not currently a priority for the Business Plan; however, this will be revisited when we have the opportunity to develop larger sites. In such cases, shared ownership brings down the overall cost of a large development.

5.6 The estimates, consistent with the business plan, continue to attach a lower priority to the repayment of debt principal inherited as part of the self-financing HRA settlement, reflecting the Council's determination to provide new additional affordable homes.

6. Preparation of the revenue and capital programme budget for 2018-19

6.1 The 2019-20 budgets have been prepared having regard to the recent policy announcements and the positive impact they might have. At the same time, we are conscious of various cost pressures along with the implications of our debt financing profile.

6.2 **Capital expenditure:** The proposed investment in our existing property base takes account of the downward pressure on our income stream since 2016. It also reflects the latest information we have on the condition of the stock.

Revenue expenditure: We have already taken a number of steps to limit our ongoing revenue commitments until we fully understand the implications of the challenges we face. These include:

- We will continue to evaluate all posts that fall vacant to determine whether it is appropriate to reappoint or whether an alternative approach is considered.
- Facilitate channel shift through increased use of IT software. Not only will this benefit our tenants, giving them access to services at a time that suits them, but it will also reduce our transaction costs. We have moved to 'Allpay' as our provider of rent payment services. Not only have we achieved cost savings but we are now able to offer more flexibility in terms of payment dates. This will be important as more tenants move across to Universal Credit
- We have recently launched a mobile payment App, offering an easy way for tenants to make rent payments.
- Rent collection analytics technology has been introduced to support the work of our estate and tenancy management team. This will increase the efficiency of the team, helping them to manage their increasingly demanding workload.

6.3 Our housing software supplier is enhancing its capability to support mobile working and self-service. We will be implementing appropriate solutions which deliver cost savings and offer better customer service.

7. HRA Revenue Budget 2018-19

Assumptions

7.1 The total HRA debt stands at £197 million. It is projected that the interest charge for 2019-20 will be £5,142,230. No provision is included in the budget for the repayment of debt during 2019-20 in line with the Executive's decision that debt repayment is not a priority. Prior to the announcement that the HRA borrowing restrictions would be lifted, the Government invited bids from councils in high affordability areas. We submitted a bid for an additional borrowing facility which was approved but which has subsequently been superseded by the removal of the borrowing restrictions.

7.2 The revenue budget for 2019-20 is predicated around a number of key assumptions. The most important are set out in the table below:

Item	Assumption
Opening stock	5,221 units of accommodation
HRA Debt	£197 million

Item	Assumption
Average cost of capital	3.16%
Rent decrease	1% reduction in social rents to be applied until March 2020
Garage income increase	3.4%
Bad debt provision 2018-19	£300,000
Void rate	1%
Service charge increases	Linked to contractual arrangements of suppliers
Housing units lost through Right to Buy (RTB)	25 per annum
Retained receipts	Held in reserves
HRA ring fence	Policy of strong ring fence continues
Debt repayment	No provision made for the repayment of debt
Operating balance	£2.5 million

7.3 The revised budget set out in Appendix 2 reflects the impact of 2019-20 being a 53-week rent year. There was some doubt around how this should be charged but recent advice received from the Local Government Association (LGA) is that we should follow usual procedures and charge for each week within the year.

Rent issues in 2019-20 arising from 53 Mondays falling in the financial year

7.4 Following submission of the HRA 2019-20 budget report for consideration by the Executive at its 22 January 2019 meeting, officers received a briefing note which had been prepared by the LGA, National Federation of ALMOs (NFA) and the Association of Retained Council Housing (ARCH) in consultation with a range of local authorities. The briefing related to *'rent issues in 2019-20 arising from 53 Mondays falling in the financial year'*. As rent charges are raised on a Monday this would ordinarily result in authorities collecting an 'extra' week's rent in a 53 week year, as in the past.

7.5 Due to the requirement under the Welfare Reform Act 2016 to decrease rents by 1% per annum, the Ministry of Housing, Communities and Local Government (MHCLG) had initially suggested that authorities would not be able to collect 53 weeks rent in 2019-20, as this would result in them collecting more than 99% of a tenant's previous years' annual rent. The income estimate for rents included in the draft budget submitted to the Executive reflected 52 weeks income.

7.6 The briefing note explains that the LGA, a range of local authorities, and various partners have subsequently investigated this issue and reached the following consensus:

- The requirement to reduce a tenant's rent by 1% per annum is met if the total rent collected over the 365 days following the previous year totals 99% of the previous year's rent, i.e. 'per annum' means a period of 365 days.

7.7 This would allow 53 weeks' worth of rent to be charged as normal, and still be in compliance with the Welfare Reform and Work Act requirement to reduce rents by 1%. This consensus has been communicated to MHCLG who have indicated that it is for individual local authorities to satisfy themselves that they are complying with the requirements of the Act.

Impact on the 2019-20 HRA budget

7.8 Including 53 week's rent in 2019-20 would increase the estimate for rental income by £540,000, therefore allowing a corresponding increase in the contribution to the new build reserve. Revised HRA summaries, referred to in Appendix 2 and paragraph 7.9 below reflect the inclusion of a 53rd week's rent in 2019-20.

Summary of Revenue Account Budget 2019-20

7.9 The table below summarises the proposed 2019-20 revenue budget, which reflects our current Treasury Management Strategy – in effect an interest only mortgage rather than a repayment mortgage. The timing of debt repayment will largely be a treasury management decision taking into account the overarching objectives of the HRA Business Plan.

Expenditure	**2019-20 Budget**
Management and maintenance	10,314,298
Interest payments	5,142,230
Depreciation	5,528,730
Contribution to reserves from surplus	11,008,504
Other items	451,520
	32,445,282
Income	
Rents – dwellings	-29,736,103
Rents – other	-1,144,054
Service charges	-1,007,580
Supporting people funding	-105,000
Miscellaneous income	-452,545
	-32,445,282

7.10 Based on the assumptions contained in the HRA Business Plan and detailed in paragraph 7.2, the HRA will have an operating surplus of £11,009 million for 2019-20. The size of the surplus reflects a number of factors:

- the prevailing borrowing rate
- the decision not to make debt repayments
- the impact of historically high levels of investment in the stock over past years maintaining stock condition
- good income collection performance
- strong rental stream with many properties at or close to target rent levels

Expenditure

7.11 The main headings are summarised below:

Subjective Heading	**2018-19 Budget**	**2019-20 Budget**
	£	£
General Management	4,963,620	4,956,630
Responsive and planned maintenance	5,249,470	5,357,668
Interest payable	5,138,210	5,142,230
Depreciation	6,500,000	5,528,730
Cost of democracy	251,530	256,800

7.12 **General Management**: Budgeted expenditure on delivering continuing HRA services remains at 2018-19 levels, reflecting the review of revenue commitments outlined in paragraph 6.2.

7.13 **Repairs and maintenance:** Budgeted expenditure on revenue-funded works is approximately 4.40% higher in cash terms, though the increase is offset by a reduction in the estimate for internal revenue recharges from the Housing Surveying Service.

7.14 **Interest payable:** Approximately 75 per cent of the loan portfolio consists of fixed interest loans, whilst the remaining portfolio is on a variable rate arrangement. Though the variable rate loans are subject to prevailing market conditions it is likely that interest rates will remain low in the short to medium term. The table below sets out our current loan portfolio.

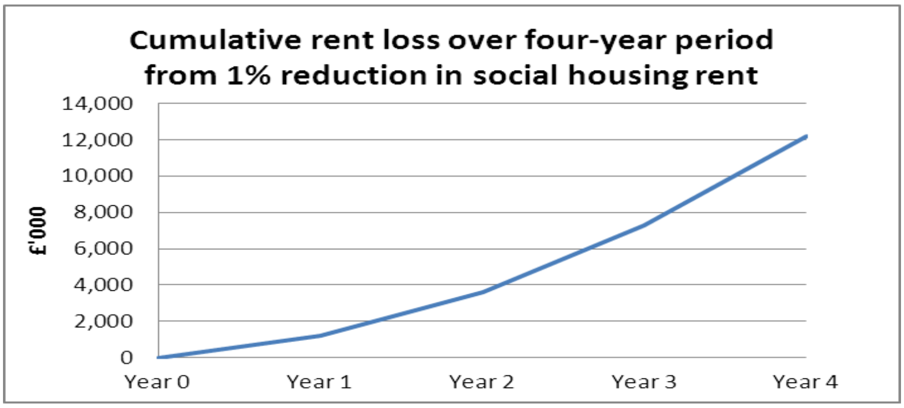
Loan Type	Principal	Remaining years	Rate
Variable	£45,000,000	4	0.92%
Fixed	£2,070,000	3	3.60%
Fixed	£10,000,000	6	2.70%
Fixed	£10,000,000	7	2.80%
Fixed	£10,000,000	8	2.92%
Fixed	£10,000,000	9	3.01%
Fixed	£25,000,000	11	3.15%
Fixed	£25,000,000	14	3.30%
Fixed	£25,000,000	19	3.44%
Fixed	£15,000,000	23	3.49%
Fixed	£17,435,000	24	3.50%

7.15 **Depreciation:** To safeguard future rental streams, we need to ensure our properties and assets are adequately maintained. This will involve the replacement of ageing components at the appropriate time. In order to do so, it is important that we set aside adequate funds each year to meet future liabilities. The depreciation charge is one of the key mechanisms we use to do this. The proposed 2019-20 charge represents, in officers' view, a realistic amount having regard to the outcome of the stock condition survey. A charge of £5,528,730 is considered both appropriate and affordable.

Income

Rent decrease

The impact of the 1% rent reduction against the assumptions contained in the last business plan is shown in the graph below:



7.16 The Welfare Reform and Work Act 2016 requires us to reduce our social housing rents by 1% a year for four years from April 2016. The previous stated formula, upon which the self-financing settlement was predicated, allowed for an annual increase in rents of CPI inflation + 1% each year. Consequently, our social rents are expected to be 12% lower than they would otherwise have been by April 2020.

7.17 The table below shows a breakdown of the 1% rent decrease in social and affordable rents. All tenants will see a reduction in rent, with the reductions ranging from £0.75 to £2.40 per week.

Rent reduction per week	Number of Tenants
£0.75 and £0.99	1,566
£1.00 and £1.49	3,379
£1.50 and £1.99	54
£2.00 and £2.40	29

7.18 The requirement to reduce rents represents a transfer from social landlords to the exchequer, rather than to social tenants. This is because the reduction in social rents will automatically trigger an offsetting fall in housing benefit entitlements for approximately 50% of our tenants in receipt of housing benefit. The remaining 50% of tenants will benefit from the 1% reduction.

7.19 Officers are proposing an increase in garage rents of 3.4% from April 2019.

Welfare Reform and Universal Credit

7.20 The Department for Work and Pensions announced in November 2016 the next stage of the roll-out programme for the introduction of Universal Credit (UC). UC brings together a number of existing legacy benefits into a single monthly payment. The implementation of the full service for new claims of UC commenced in the Guildford area in October 2018. The remaining existing claimants are due to migrate to UC from 2018-19 and this process will continue until 2022 when it is anticipated that all working age claimants will have transferred to UC.

7.21 Whilst it is difficult to predict with accuracy what the impact will be, early indications are that some tenants may potentially struggle under UC - either to manage their financial affairs or to engage with the new system. The changes, coupled with the general economic situation, will be particularly challenging for our more vulnerable tenants. Collection costs and arrears have tended to increase across the sector but to varying degrees. The move to 'Allpay' allows more flexibility in terms of payment arrangements which may help some tenants to manage their financial affairs under the new benefit system. The recently launched mobile Payment App offers a very easy additional payment option.

7.22 A provision for bad debt charge of £300,000 is included in the estimates. This charge will remain under review, but it is considered appropriate - it represents 1% of the annual tenanted income.

Right to Buy sales (RTB)

7.23 RTB activity remains steady during 2018-19. Contributory factors include easier access to loan finance and the increase in the maximum discount allowance to £80,900 (£78,600 2017-18).

7.24 The table below outlines activity as at December 2018.

Activity	Number
Properties sold since 1 April 2018	9
Applications being processed	47

7.25 Under the government's one-for-one replacement scheme (not to be confused with the enforced sale of high value properties), we are able to retain the majority of the capital receipt provided it is re-invested in additional affordable housing or regeneration schemes within three years. Only a third of the cost of a development can be financed from this source - we must finance the balance from capital receipts or other sources including reserves accruing from the appropriation of revenue account surpluses. Our current development plan fully commits the one-for-one retained receipts we have accumulated to date. The ambition remains to utilise the receipts we are anticipating in future years.

7.26 On current levels of activity, we project a loss of units to be in the region of 20-25 units per year. Our new build programme is mitigating the impact of the on-going right-to-buy programme, but it is unfortunate there is to date no proposals to amend the scheme in order to prevent the ongoing loss of much needed social housing in the area.

7.27 Increasing sales has three negative impacts. It:

- reduces the number of affordable homes
- removes the long term positive contribution each property makes to our operating costs
- increases the unit costs of managing and maintaining properties. Invariably tenants buy the better properties.

HRA Borrowing Cap

7.28 The recent decision by the Government to remove HRA borrowing restrictions is warmly welcomed. Unlike many councils, we have not been able to incur additional borrowing without specific agreement. The decision offers greater capacity to deliver new homes and to consider greater flexibility on rent setting for new developments. Our reserves give us this option.

7.29 How an individual scheme is funded will depend on the prevailing financial circumstances and the nature of the scheme. In practice, we expect to fund schemes using:

- capital receipts retained under the 1 for 1 replacement scheme
- HRA reserves
- HRA borrowing

7.30 HRA borrowing will be within the Prudential Borrowing framework – it must be affordable by the HRA and not place our existing services and stock investment programmes at risk.

Each development scheme will be appraised individually to ensure it is viable and affordable as is currently the case.

8. HRA Capital Programme and Reserves

8.1 We will continue to assess a range of different delivery mechanisms for new homes. Whilst these will introduce a greater degree of complexity, the indications are that they will provide additional freedoms. The housing market in the borough does not work for many and a wider range of interventions are needed, beyond those that the HRA is able to make. The section below sets out what the HRA can do over the coming year.

8.2 Currently, there are four potential strands forming our HRA capital programme under the self-financing regime. In the past, not all have been viable options but that position has changed. The four strands are:

- replacing ageing components such as roofs and kitchens
- improving and enhancing existing properties – for example, installing double glazing
- stock rationalisation – the most common example to date being the decommissioning of outdated sheltered units
- expansion – the provision of new additional affordable homes.

8.3 The funding sources enabling us to deliver a capital programme are as follows:

- HRA rental stream
- Capital receipts generated from the disposal of HRA assets including land
- HRA reserves
- HRA borrowing

8.4 The HRA has built up significant revenue reserves and as at 31 March 2019 are estimated to be in the region of £88.7 million – excluding capital receipts. These can be used for specific HRA related purposes. It is proposed that these reserves are set aside to support the major repairs and improvements and new build programme. The HRA also has usable capital receipts, generated from the sale of HRA land and housing assets. The balance of usable capital receipts is expected to be over £17.1 million as at 31 March 2019. These funds can only be used to support capital expenditure.

8.5 The table below shows the available reserves that can support the HRA Business Plan and they reflect only the schemes currently included in programme, and the decision not to repay debt. The table has been updated to include the bids approved by the Executive at its meeting on 22 January 2019. The contribution into the reserve for future capital programmes is maintained.

Year ending	Reserve for future capital works	Major repairs reserve	New Build Reserve	**Total**	Usable capital receipts	Usable Capital Receipts (one-for-one receipts) 1	Usable Capital Receipts (HRA debt repayment)	**Total usable capital receipts**	**Total reserves/ receipts**
	£000	£000	£000	**£000**	£000	£000	£000	**£000**	**£000**
Mar-19	33,329	9,598	45,789	**88,716**	6,760	6,142	4,158	**17,060**	**105,776**
Mar-20	35,829	9,977	51,687	**97,493**		7,666	4,819	**12,485**	**109,978**
Mar-21	38,329	9,977	48,818	**97,124**		5,443	5,502	**10,945**	**108,069**
Mar-22	40,829	9,977	40,475	**91,281**		877	6,207	**7,084**	**98,365**
Mar-23	43,329	9,977	42,768	**96,074**		874	6,935	**7,809**	**103,883**
Mar-24	45,829	9,977	46,316	**102,122**		1,412	7,687	**9,099**	**111,221**

Potential reserve commitments - Illustrative example

Potential repayment of variable rate loan	**45,000**
Cumulative reserve balance	**66,221**

8.6 Looking ahead, the Slyfield Area Regeneration Project (SARP) offers a unique opportunity to deliver significant additional affordable homes. If we assume a provision of 40% affordable housing in the project, an investment of at least £120 million will be required to make this a reality. Our current financial position places us in a good position to make a significant contribution to this element of the project.

8.7 The anticipated level of reserves needs to be balanced against a rapidly changing financial and legislative environment but the ability to profile expenditure using the flexibility that borrowing provides is welcomed.

8.8 The business plan is most sensitive to the following assumptions:

- income trends
- legislative changes
- inflation rates
- cost of debt
- capital investment
- right-to-buy sales

8.9 The degree to which a development programme can be financed will in part be determined by a continued willingness to attach a lower priority to debt repayment coupled with the release of land for such purposes under the provisions of a Local Plan.

8.10 One-for-one receipts are being applied to current and proposed new build schemes to minimise the risk of repayment of such receipts. This will enable the retention of future one-for-one receipts, with a reduced risk of repayment, pending the identification of new sites[1]

[1] The Council has entered into an agreement with the Secretary of State whereby it is allowed to retain an element of the capital receipts that it receives from Right to Buy sales. Under the terms of the agreement these receipts must be used to finance up to 30% of the cost of replacement social housing within three years, otherwise the retained receipts must be repaid to the DCLG with interest.

8.11 A combination of usable one-for-one receipts and the new build reserve will be used to fund a number of schemes on the approved capital programme. These include the schemes at Guildford Park, Ladymead, the former Apple Tree pub site, Bright Hill, and various garage sites. Where appropriate, investment will be supplemented by appropriate borrowing. An update on the current status of the above schemes is provided below.

8.12 **Development Projects:** In the last 4 years, the HRA has invested over £17 million and delivered 92 new homes for our local residents. An update of our current development projects is set out below.

8.13 **Bright Hill (Ward: Holy Trinity –** the site held by the HRA is used as a temporary car park which supplemented parking provision during the construction of Tunsgate Square, a new retail led development. It is a challenging site in terms of location, topography and the relationship with surrounding properties. A range of site surveys are in progress to inform design development of a mixed tenure scheme.

8.14 **Guildford Park (Ward: Onslow)** – the enabling works contract is underway with significant retaining structures nearing completion along with major service diversions. A framework contractor has been appointed to finalise the design with the aim of starting the construction of the multi-storey car park in Spring 2019. A further report will shortly be considered by the Executive (the general fund provisional programme includes £23 million in respect of this project).

8.15 **Former Apple Tree Pub Site (Ward: Westborough)** – construction is well underway with completion planned for early Summer 2019. The new development has been named 'The Orchard'.

8.16 **Ladymead (Ward: Friary & St Nicolas) –** the site has been transferred from SCC to the Council and construction is now underway. Completion of 12 flats is planned for early 2020.

8.17 We have a number of other sites under active consideration, some of which involve third parties. We are proposing to include a total budget of £23.1 million on the provisional programme and £0.8m on the approved programme. The provisional programme currently contains a budget of £6 million for this purpose, a bid for an additional £17.9 million is included in the capital and investment strategy report elsewhere on this agenda.

8.18 We are also proposing that the approved budget for the acquisition of land and property be increased from £3.5 million to £10.7 million. Experience over the last 12 months shows that the market requires a very quick response to any opportunities. It is therefore important that the Council is in a position to move very quickly should any suitable opportunities arise. The capital and investment strategy report contains a bid for the additional budget.

8.19 The Constitution already makes provision, through a delegation to the Director of Community Services in consultation with key Councillors and officers, to allow decisions to be taken quickly but with appropriate governance safeguards in place.

8.20 **Existing housing stock:** Based on an analysis of our stock condition data and the detailed knowledge that the Property Manager has of the stock, a proposed investment programme is set out in Appendix 4. The proposed programme reflects earlier years with a continual focus on improved energy efficiency reflecting the impact of rising fuel prices. Schemes completed during 2018-19, including the installation of air-source heat pumps, have resulted in better comfort levels at reduced cost and impact on the environment. This approach is best suited to previously electrically heated dwellings.

8.21 Authority is sought to transfer the equity share repurchase and cash incentives schemes for 2019-20 currently shown on the provisional capital scheme list of Appendix 4 to the approved programme list.

9. Robustness of the Budget and Adequacy of Reserves

9.1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the budget and adequacy of the proposed financial reserves.

9.2 The budget process started in July 2018. Paragraph 7.2 details the assumptions used in the preparation of the 2019-20 budget.

9.3 Staffing costs have been included based on the Full Time Equivalents (FTEs) included in the approved establishment of 65.26.

9.4 Throughout the budget process, the Corporate Management Team, the Leader and relevant lead councillors have been involved in what is considered to be a deliverable budget.

9.5 A prudent assessment of income has been made and only income that has a high level of certainty of being received is included within the budget. The 2019-20 budget includes a bad debt provision of £300,000. This provision reflects the economic climate and continuing welfare reform changes. The level of operating balance remains unchanged at £2.5 million.

9.6 Surrey County Council funding in respect of Sheltered Housing services was removed from the budget for 2018-19. It assumes a continuation in the funding of supported housing of £82,000.

9.7 Service level risk assessments have been undertaken for both existing major areas of the budget and changes arising from the self-financing regime and legislative changes.

9.8 The corporate risks will be included in the corporate risk register, whilst service risk registers are prepared having regard to the comprehensive guidance available about how to identify and score risks.

9.9 The overarching HRA business plan reflects the changing financial environment in which it needs to operate and to ensure the business plan remains fit for purpose. The HRA will continue to need to balance tenant needs and expectations in the context of its financial situation.

9.10 The value of all housing related reserves as at 1 April 2019 is projected to be around £106 million. The estimated value of all HRA reserves for the period up to 31 March 2023 is shown in paragraph 8.5. The HRA has a significant level of reserves and working balance, but has spending ambitions to match.

10. Legal Implications

10.1 The HRA is a separate account that all local authorities with housing stock are required to maintain. This account contains all transactions relating to local authority owned housing.

The Local Government and Housing Act 1989 prohibits the Council operating its HRA at a deficit. The proposed balanced budget meets this obligation.

10.2 Notices of any increase in rent have to be sent to tenants 28 days in advance of the new charges coming into effect.

11. Human Resource Implications

11.1 The decision to review and where necessary to freeze or delete vacant posts is outlined in paragraph 6.2.

12. Conclusion

12.1 The proposed HRA revenue budget not only meets our obligation to deliver a balanced budget but also delivers opportunities to improve services to tenants. It also enables the Council to provide new affordable homes at a time when access to housing is increasingly difficult.

12.2 The proposed HRA capital programme sets out to maintain and improve our existing assets. It is essential we do so, not only to meet our regulatory obligations but also to safeguard future income streams.

13. Background Papers

None

14. Appendices

Appendix 1: HRA Business Plan 2019-2049
Appendix 2: Draft HRA Revenue Budget
Appendix 3: HRA Fees and Charges
Appendix 4: HRA Investment Programme (Major repairs and improvements)
Appendix 5: Housing Investment Programme, resources and funding statement