

<b>Committee(s)</b>	<b>Dated:</b>
Finance Committee	16 February 2021
<b>Subject:</b> Housing Revenue Account	<b>Public</b>
<b>Which Outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	1,2,3,4,5,8,9,10,11 & 12
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
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## **Summary**

This report sets out the financial difficulties around the ring-fenced Housing Revenue Account (HRA); particularly for loss of rental income on commercial properties during the COVID pandemic in the current financial year. The Account must be self-supporting and cannot use other City Fund resources of the Corporation to fund revenue expenditure. Approval is requested for support from City's Cash contingencies as a grant of £450k to ensure the HRA does not fall into deficit in the short term. There is no national compensation package forthcoming for lost HRA income, although this was requested by the Local Government Association as a response to the local government settlement in 2020-21. It also presents the longer term forecast which shows that reductions in the cost base are needed over the next two to three years to ensure that the HRA can meet all expenditure, including expected loan repayments and interest payments, from within the rental income generated by the properties in the Account.

## **Recommendation**

Members are asked to:

- i) Approve, exceptionally, a £450k grant from City's Cash 2020/21 contingencies to ensure the HRA remains in balance this year, covering commercial income losses.
- ii) note the need for a review of the HRA cost base by the Housing department so that further support is not required in the medium term and the importance of the timely completion of new units to cover the cost of future loan repayments.

## **Main Report**

### **Introduction**

1. The HRA is a ring-fenced fund that means that the Account must be self-supporting and cannot use other City Fund resources of the Corporation to fund revenue expenditure. Note however the HRA can borrow from City Fund for Capital major works, but cannot borrow to fund revenue expenditure.
2. The HRA currently has no borrowing, but has for some time planned to borrow to upgrade the existing housing stock with works to roof replacement, window renewals, new fire doors and various decent home works.

3. The HRA Revenue Reserve position remains extremely difficult in the short term (see Budget Estimates Report at Appendix 1). Revenue reserves have been run down previously as a result of delays of up to two years in income generating new build projects, which has meant that more than £1.2m per annum in additional rental revenue has been foregone for this period. In addition, the proportion of the major works programme charged to revenue (as supplementary revenue projects) was higher than anticipated, which has further reduced revenue reserves. These issues have then been compounded by the in-year effect of COVID-19 causing a reduction in rental income, including thanks one quarter given rent free. The current forecasts show that £450k of support is currently needed in year. This figure may need to rise depending on the review of recoverability of deferred debts at the year end. Importantly, this assumes that there is no national compensation package forthcoming for lost HRA income, although this has been requested by the Local Government Association as a response to the local government settlement in 2020-21. Supporting the HRA through this period would be in line with support given to other restricted funds, however other HRA's across the country in similar positions do not have recourse to a fund like City Cash and are therefore having to make significant cuts to revenue expenditure and delaying borrowing for capital works in response.
4. In the medium term, the Budget Estimate report also makes clear that there is a need for a full review of the HRA cost base so that future planned expenditure can be contained within the envelope of the expected rental income stream. In year savings have been made on the HRA expenditure through the re-profiling of repair works and holding of staffing vacancies but these responses are only of a temporary nature and more substantial and longer-term efficiencies are needed. Furthermore, the affordability of the expected loan repayments is closely linked to the coming on stream of additional rental income of £1.2m from the new units expected at COLPAI and Sydenham Hill, so any additional delays will cause significant revenue funding issues.

## **Conclusion**

5. This report identifies that immediate support is required from City's Cash contingencies to cover the loss of income from commercial properties in 2020/21. Action is needed by the Housing department to reduce revenue costs in the medium term.

## **Appendices**

- Appendix 1 – HRA Budget estimates 2021/22

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