

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 12 DECEMBER 2017

Title of report	HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSALS FOR 2018/19
Key Decision	a) Financial Yes b) Community Yes
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Councillor Roger Bayliss 01530 411055 roger.bayliss@nwleicestershire.gov.uk</p> <p>Chief Executive 01530 454500 Bev.smith@nwleicestershire.gov.uk</p> <p>Director of Housing 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Financial Planning Manager and Deputy Section 151 Officer 01530 454707 tracy.ashe@nwleicestershire.gov.uk</p>
Purpose of report	To seek approval of the draft 2018/19 Housing Revenue Account (HRA) Budget proposals for consultation.
Reason for Decision	To enable the Council to set a balanced Housing Revenue Account Budget for 2018/19.
Council Priorities	The HRA budget assists the Value for Money priority.
Implications: Financial/Staff Link to relevant CAT Risk Management	<p>As included in report.</p> <p>Delivering a HRA Budget for 2018/19 will allow the Council to achieve the objectives for the service as set out in the Housing Business Plan and Service Team Business Plans.</p> <p>The Council sets an HRA budget, which is regularly monitored throughout the year to ensure services are delivered within budget. Risks are managed through the corporate risk management process.</p>

Equalities Impact Screening	None identified.
Human Rights	None identified.
Transformational Government	Not applicable
Comments of Head of Paid Service	Report is satisfactory
Comments of Deputy Section 151 Officer	As author, the report is satisfactory
Comments of Monitoring Officer	Report is satisfactory
Consultees	Corporate Leadership Team (CLT), 14 November 2017
Background papers	None
Recommendations	<p>A. THAT THE ASSURANCE STATEMENT BY THE S151 OFFICER BE NOTED,</p> <p>B. THAT CABINET APPROVE THE DRAFT HRA BUDGET PROPOSAL, INCLUDING THE 1% RENT DECREASE, AS DETAILED IN THIS REPORT AND ASSOCIATED APPENDICES FOR CONSULTATION</p>

1.0 INTRODUCTION

- 1.1 This report seeks Cabinet approval to consult on the draft HRA budget proposals for 2018/19, with the outcome of this consultation exercise being fed back into the subsequent reports to Cabinet and Council to seek approval for the final budget.
- 1.2 The formal consultation process with customers adheres to the same consultation timetable as the General Fund and will commence on 14 December 2017 and end on 12 January 2018 in readiness for Cabinet and Full Council approval of final proposals on 6 and 27 February 2018 respectively.
- 1.3 Draft proposals for consultation have been prepared in the context of the continuation of four years of 1% per annum rent reductions from 2016/17 in accordance with the Work and Welfare Reform Act 2016. The impact of that rent reduction was fully incorporated into the 2016/17 HRA Budget and long term business plan. The Government has announced that from 2020 rent increases will be limited to 1% above CPI, which provides more certainty for medium term financial planning. However, ongoing inflationary pressures, coupled with the ongoing 1% rent reductions, will certainly present financial challenges to the Housing service going forward.

2.0 2017/18 BUDGET POSITION

- 2.1 The budgeted outturn position for 2017/18 was a £142k surplus. The overall forecast for the current year at period 6 shows £256k surplus. This is largely as a result of a saving in Council Tax, resulting from fewer empty properties, together with savings against salaries budgets as a consequence of unfilled vacancies in one service area where restructuring proposals are pending.
- 2.2 As a result of this the balance on the Housing Revenue Account at 31 March 2018 is estimated to be £9.17m. This balance significantly exceeds our agreed minimum working balance on the HRA of £1m and this has been developed to provide a loan repayment reserve provision for the future repayment of debts taken out on a maturity repayment basis, within the HRA Business Plan. The first maturity loans of £10m and £3m fall due for repayment on 28 March 2022. It is proposed that the balances over the £1m minimum working balance on the HRA continue to be transferred to a savings reserve for the purposes of repaying these loan commitments.

3.0 2018/19 BUDGET OVERVIEW

- 3.1 Budget proposals are based on prices and levels of charges for Council Housing related services at September 2017 plus other known increases, for example contractual uplift obligations.
- 3.2 The process of determining the 2018/19 budget includes the capturing of all of the changes required from one budget year to the next within the HRA in the form of a budget “investment” – a request for more funding or a reduction in income collected, or a budget “saving” – an increase in income or a budget saving via reduced expenditure.
- 3.3 The budget investment and budget saving proposals for the 2018/19 budget are shown within Appendix B.
- 3.4 In relation to the proposed sale of higher value empty homes, a provision of £1.0m originally included in the 2017/18 capital programme will be revised to nil. There has been no clear guidance from DCLG, but the general view from the housing sector is that the policy will not be implemented. To accommodate the inclusion of the expenditure within the capital programme, capital receipts income from asset disposals had also been included. For consistency, this has been reduced in line with the removal of the expenditure requirement.
- 3.4 For 2018/19, the level of revenue contribution to capital outlay (RCCO) is proposed to decrease from £3.0 m to zero. This is largely as a result of variations in the investment needs of the improvement programme and re-profiling the new build programme
- 3.5 The draft budget for 2018/19 is estimated to produce an operating surplus / deficit of zero, after making the RCCO and a contribution of £3.0m on the debt repayment reserve, which will take total estimated HRA balances at 31 March 2019 to £12.2m. The HRA working balance will remain at £1m and the remaining £11.2m will be held in the debt repayment reserve.
- 3.6 In the years following 2018/19, the future predicted amounts that the HRA is able to contribute to the debt repayment reserve, subject to further revisions via the annual budget setting process are as follows:

- 2019/20 - £2.6m
- 2020/21 - £2.7m
- 2021/22 - £0.0m
- 2022/23 - £0.0m

Further contributions can be sustained within the business plan to build up the reserve in later years to support the repayment of maturing loans.

4.0 2018/19 BUDGET – RENTS

- 4.1 During 2014, the Government announced that from 2015/16 rent guidance required rent increases to be via a formula of September CPI + 1% for the next 10 years. On the introduction of that guidance the former rent restructuring policy ceased, with the exception of re-letting properties at the converged rent level ('target rent') on re-let.
- 4.2 As part of the 2015/16 budget, Cabinet agreed to adopt an accelerated convergence approach that increased 2014/15 rents following the guidance of CPI + 1%, but also continued to converge rents not already at the target rent at an accelerated rate of up to £4 per week. Cabinet also agreed to the expansion of the approach to letting properties at target rent to include transfers by existing tenants.
- 4.3 However, at the end of October 2017, only 58% of properties were at their target rent, a much lower percentage compared to the vast majority of local authorities.
- 4.4 The Work and Welfare Reform Act 2016 required rents to be reduced by 1% below their 2015/16 levels, with the exception of those for supported housing. An exemption was granted for supported housing and those rents were increased by CPI + 1%. However, the Secretary of State for Work and Pensions announced on 15 September 2016 that the 1% rent reduction would apply for supported housing for 2017/18 and the following two years.
- 4.5 The formula for determining rents is based on 1999 values of the Council Housing stock, which were assessed retrospectively a number of years ago. There is an opportunity to carry out a revaluation of the housing stock and recalculate the formula rents. A review is currently being undertaken to determine the financial impact on rents, which will be the subject of a separate report to Cabinet at a later date.
- 4.6 The level of rent loss due to void properties target included in the budgeted rental income is 1%, a reduction from 1.5% assumed in the previous year.
- 4.7 As a result of the 1% rent reduction for 2018/19, lower property numbers due to RTB sales but some offsetting through the effects of the new build and acquisitions programme, net budgeted rental income is £80k less than budgeted in 2017/18.
- 4.8 The HRA business plan currently has a core assumption that future rents will increase by 1.5% (notwithstanding the four year 1% rent reductions from 2016). Recently, the Government has announced that from 2020/21, when the four year rent reduction period ends, increases to social rents will be limited to CPI + 1%. This has no impact on the budget for the next two years but clearly helps to provide a degree of certainty for longer term business planning, and is likely to have a net positive effect going forward from 2020/21 compared to the current assumptions. However, over the 30 year business plan period additional efficiencies and further savings will still need to be identified.

- 4.9 A number of accounting and budget estimate amendments have been made from 2017/18, which is set out in Appendix B. The most significant of those are a saving of £87k in rent loss and a further £60k in Council Tax charges from reducing the void rate; on the other hand the 1% decrease in rents will reduce rent income by £172k.

5.0 SERVICE CHARGES, FEES AND OTHER CHARGES

- 5.1 Approximately one third of the Council's properties have a service charge, covering a range of items such as communal heating, communal lighting, maintenance of communal areas and the older persons service charge. Service charges are covered by Housing Benefit and will be eligible for Universal Credit payments, whilst all other fees and charges are not.
- 5.2 For 2018/19 average weekly service charges are proposed to be increased by 1.08%.
- 5.3 Central heating charges are proposed to be maintained at existing levels, based on forecast energy prices anticipated for 2018/19.
- 5.4 Garage rent levels are proposed to rise by 3.9% which is in line with the Retail Prices Index (RPI) as at September 2017.
- 5.5 Appleby Magna Caravan Site is a General Fund asset but managed by the Housing Service. Ground rents for the site are proposed to be increased by RPI of 3.9% on the anniversary of each individual rent agreement in 2018/19.
- 5.6 It is proposed that Lifeline Charges are increased by RPI of 3.9% from April 2018 for East Midlands Housing as per the contract, but held at 2017/18 levels for private customers, following the introduction of the new service and in order to foster customer retention and growth.
- 5.7 Most shop leases are proposed to rise by 14% as agreed by Cabinet in November 2014 as part of the process of gradually moving all of them to a market rent.
- 5.8 A table detailing each charge increase can be found in Appendix C.

6.0 HRA BUSINESS PLAN

- 6.1 Significant annual surpluses on the HRA are required in future years in order to meet the loan repayment commitments in the HRA Business Plan. As detailed in 2.2 and 3.6 above, existing balances and future annual surpluses will be transferred to the debt repayment reserve for the purposes of repaying these loans. The first maturity loans to fall due do so in 2021/22 and are for £3m and £10m. Please see Appendix D for a schedule of HRA loans.
- 6.2 The inclusion of the new build programme and the inclusion of negotiated gifted units from developers provides some improvement in the overall business plan viability. However, given the current forecasts for the rental income stream, it is not possible to achieve a positive cash flow in future over a 30 year period where borrowing is required to finance new development for affordable rent (and no HCA funding or other subsidy is available).

- 6.3 In order to deal with significant sums in loans that mature later during the business plan period, further savings, additional income or refinancing will be needed to address potential shortfalls of £14.8m in 2041/42 and a further £34.6m by the end of the 30 year period in 2047/48.
- 6.4 It should be noted that the projected level of savings requirement is very sensitive to the level of future rent increases, which is difficult to predict given the uncertainty in the medium to long term of future inflation rates and changes in central government rents policy. Therefore, as these potential liabilities fall 25 years plus hence, there are several other variables that could change over the intervening period, and the recurring option to refinance at an appropriate juncture is available, it is not considered necessary to draw up detailed plans at the moment to address the highlighted sums.
- 6.5 There is no requirement for a revenue contribution to capital outlay (RCCO) for 2018/19. Future amounts are forecast to be required in order to support the capital programme, including new build proposals, as follows:

RCCO

- 2019/20 - £0.0m
- 2020/21 - £0.0m
- 2021/22 - £0.3m
- 2022/23 - £2.9m

It is important to note however that there is limited scope to make RCCOs in the early years of the Business Plan due to the need to build up loan reserve capacity to repay maturity loans falling due in 2021/22.

7.0 CONSULTATION PROCESS

- 7.1 The contents and appendices of this report will be used to consult with Council tenants on the proposals for the 2018/19 Housing Revenue Account budget.
- 7.2 This will include consulting with tenant members of the Performance and Finance Working Group (the Council's Resident Involvement technical finance working group) and the Tenants and Leaseholders Consultation Forum (the Council's main consultative body of tenants) to review and comment on the proposals.
- 7.3 In addition, the contents and appendices of this report will be published on the Council's Housing internet page and available in hard copy format upon request.
- 7.4 The report will be presented to the Policy Development Group on 10 January 2018.
- 7.5 A copy of the consultation timetable can be found in Appendix E.

8.0 ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

- 8.1 The Local Government Act 2003 requires the Council's Chief Financial Officer (Section 151 Officer) to comment on the robustness of the estimates and also on the adequacy of the proposed reserves. Members must have regard to these comments when making a decision on the budget proposals for the forthcoming year.

- 8.2 Taking into account identified risks, the Deputy Section 151 Officer considers that the estimates which form the Housing Revenue Account Budget for 2018/19 are robust and prudent, and the proposals are deliverable.
- 8.3 The Deputy Section 151 Officer also considers that the overall level of Housing Revenue Account reserves is adequate.

APPENDIX A

LINE NO.	DETAIL	2017/2018		2018/2019
		Budget £	Forecast (p6) £	Estimate £
	HOUSING REVENUE ACCOUNT			
1.	TOTAL REPAIRS & MAINTENANCE	5,354,970	5,408,410	5,460,160
	SUPERVISION & MANAGEMENT			
2.	General	2,190,720	2,032,960	2,139,920
3.	Special / Supporting People	502,030	527,250	521,330
4.		2,692,750	2,560,210	2,661,250
5.	PROVISION -DOUBTFUL DEBTS	125,000	125,000	100,000
6.	CAPITAL FINANCING:-			
7.	Depreciation - MRA & other	3,139,190	3,139,190	3,139,190
8.	Debt Management Expenses	1,390	1,390	1,210
9.		3,140,580	3,140,580	3,140,400
10.	TOTAL EXPENDITURE	11,313,300	11,234,200	11,361,810
11.	RENT INCOME			
12.	Dwellings	17,109,960	17,183,500	17,029,440
13.	Service Charges	519,460	469,830	512,295
14.	Garages & Sites	85,630	69,910	72,640
15.	Other	21,380	21,320	20,030
16.	TOTAL INCOME	17,736,430	17,744,560	17,634,405
17.	NET COST OF SERVICES	-6,423,130	-6,510,360	6,272,595
18.	CAPITAL FINANCING - HISTORICAL DEBT	125,000	125,000	125,000
19.	CAPITAL FINANCING - SELF FINANCING DEBT	3,257,170	3,257,170	3,257,170
20.	INVESTMENT INCOME	-43,860	-71,310	-62,000
21.	PREMATURE LOAN REDEMPTION PREMIUMS	7,060	7,060	7,060
22.		3,345,370	3,317,920	3,327,330
23.	NET OPERATING EXPENDITURE	-3,077,760	-3,192,440	-2,945,365
24.	REVENUE CONTRIBUTION TO CAPITAL	2,986,380	2,986,380	0
25.	DEPRECIATION CREDIT - VEHICLES	-50,730	-50,730	-50,730
26.		2,935,650	2,935,650	-50,730
27.	NET (SURPLUS) / DEFICIT	-142,110	-256,790	-2,996,095
	<u>HRA BALANCES</u>			
28.	Balance Brought Forward	-1,000,000	-1,000,000	-1,000,000
29.	(Surplus)/Deficit for Year	-142,110	-256,790	-2,996,095
30.	Transfer to Loan Repayment Reserve	142,110	256,790	2,996,095
31.	HRA General Balance as at year end	-1,000,000	-1,000,000	-1,000,000
32.	Loan Repayment Reserve balance	-8,054,344	-8,169,024	-11,165,119

APPENDIX B

Saving / Increase in Income

Ref	Team	Savings Bid Title	Value	RAG
SAV1	Housing Management	Reduction in Under Occupation Incentive payments due to decreasing demand.	£30,000	G
SAV2	Housing Management	Reduction in Council Tax charges for empty properties due to a significant fall in empty homes numbers.	£60,000	G
SAV3	Asset Management	Reduction in responsive & maintenance costs as a result of right to buy sales.	£11,805	G
SAV5	Housing Management	Legal and Professional fees	£5,000	G
SAV18	Asset Management	Lift maintenance budget reduced based on re-assessed requirement.	£13,275	G
SAV19	HRA Business Support	Tenants Insurance Premium Receipts	£5,000	G
SAV22	Asset Management	Smoke detector servicing budget reduced based on re-assessed requirement.	£15,000	G
SAV23	Asset Management	Mechanical air extraction budget reduced based on re-assessed requirement.	£15,000	G
SAV24	Asset Management	Budget for replacement of double glazed units decreased as the window replacement programme reduces demand	£27,000	G
SAV25	HRA	Annual void rate reduced from 1.5% to 1%	£87,000	G
SAV36	Housing Management	Provision of CCTV for Cropston Drive	£5,000	G
SAV38	Housing Management	Additional lifeline equipment needs to meet new demand lower than for 2017/18	£10,000	G
SAV39	Housing Management	Additional Income from Safe & Well Growth Plan	£9,735	G
SAV40	HRA	Reduction in Bad Debt Provision	£25,000	G
De-min SAV	De-minimis (up to £5k)	Equipment Leasing (SAV7) -£2,000; Other Miscellaneous Expenses (SAV9) -£4,000; Professional Fees (SAV10) -£1,000; Stationery (SAV12) -£2,000; Training (SAV13) -£500; Miscellaneous Expenses (SAV15) -£500; Other Printing (SAV16) -£3,000; Adaptations (SAV21) -£3,500; Housing Needs Survey (SAV26) -£2,000; Lifelines (EMA) (SAV35) -£1,520; Annual Increase in Garages and Garage Sites (SAV34) -£2,985	£23,005	G
Total			£341,820	

Investment / Reduction in Income

Ref	Team	Investments Bid Title	Value	RAG
BI11	HRA Business Support	Insurance Tenants Contents Premium proportion passed to Marsh	£5,000	G
BI14	Housing Management	Assistive Technology Officer part time to full time post (February 2018 onwards)	£6,380	G
BI19	Asset Management	Supervisor for Capital Works	£40,000	G
BI22	HRA	Establishment of Local Housing Company	£30,000	G
BI28	Housing Management	Water Charges	£5,000	G
BI4	Asset Management	1% IRT Salary Increase	£12,520	G
BI5	HRA	Rent decrease 1%	£171,920	G
BI7	Asset Management	Annual contract increases for Sure Group, Domestic Energy Assessor Group, Capita Openhousing	£19,106	G
BI8	HRA	1% pay award for staff	£19,662	G
De-min BI	De-minimis (below £5k)	Tenant Scrutiny Panel Events (BI20) £250; Additional IRT Operatives Telephones (BI23) £2,000; Additional IRT Operatives Miscellaneous Expenses (BI25) £2,000; Additional IRT Operatives Operational Equipment (BI27) £4,000; TPAS Annual Subscription (BI9) £770	£9,020	G
Total			£318,608	

APPENDIX C

COMPARISON OF 2017/18 AND 2018/19 HOUSING CHARGES							
	2017/18		2018/19				
Chargeable Service	Actual 2017/18	Charge	Estimates 2018/19	Increase/ (Decrease)	Percentage Change	Charge	Basis of Increase
Service Charges	£510,288	Varies per property	£512,295	£2,007	0.39%	Largest weekly increase value:£2.26; Largest weekly decrease value: £1.55	Based on assessment of all chargeable services.
Central Heating	£84,550	0 Bed: £7.75pw, 1 Bed: £9.34pw, 2 Bed: £10.72pw, 3 Bed: £12.32pw	£84,550	£0	0.00%	0 Bed: £7.75pw 1 Bed: £9.34pw 2 Bed: £10.72pw 3 Bed: £12.32pw	Based on market assessment of predicted increases in utility costs during 2017/18 and 2018/19.
Garage & Garage Site Rent	£76,500	Garage: £6.43pw Site: £4.12pw	£79,484	£2,984	3.90%	Garage: £6.68pw Site: £4.28pw	September 2017 RPI increase in line with previous years
Appleby Magna Caravan Site Rent	£15,907	Site: £31.19pw	£16,455	£548	3.90%	Site: £33.23pw	September 2017 RPI increase at anniversary date of each licence in line with previous years.
Shop Leases	£16,302	n/a	£18,584	£2,282	14.00%	Varies by location	14% increase based on Nov 14 Cabinet Report
Tenants Contents Insurance	£51,299	Premiums from £0.44 to £6.70pw	£51,961	£662	1.29% average for all current policy holders	Premiums from £0.36 to £7.41pw	Increase in IPT from 9% to 12.5%, but total budget less as no of customers had reduced
Lifelines for private customers	£103,330	£3.95 pw basic, £5.95 pw enhanced	£103,330	£0	0.00%	£3.95 pw basic, £5.95 pw enhanced	No change to weekly charge proposed for 2018/19 due to recent introduction of Safe & Well
Lifelines (East Midlands Housing Association)	£38,973	Various depending on scheme	£40,493	£1,520	3.90%	Scheme dependent, but average increase from £2.88 to £2.99 pw	September 2017 RPI increase in line with previous years
Choice Based Lettings Advertising Costs	£22,000	n/a	£22,000	-	0.00%	n/a	No increase proposed.
Total Services	£919,149		£929,152	£10,003	1.08%		

NWLDC Housing Revenue Account Loan Schedule

NWLDC - HRA Self Financing loans taken up 26/03/12

PAYMENT PROFILE - PRINCIPAL AND INTEREST

Loan Type	Principal	Loan Period (Years)	Interest Rate
Maturity (2042)	10,000,000	30	3.5
Annuity	10,000,000	20	2.57
Maturity (2022)	10,000,000	10	2.4
Maturity (2022)	3,000,000	10	2.4
Annuity	10,000,000	15	2.02
Maturity (2037)	10,000,000	25	3.44
Maturity (2042)	13,785,000	30	3.5
Maturity (2042)	10,000,000	30	3.5
	76,785,000		

Note – The above schedule does not reflect the HRA share of existing general fund loans for which the HRA bears an annual charge.

Consultation and approval of HRA 2018/19 Budget Timetable

Date	Item	Information
27 November	Budget considerations and headlines	Members of Tenants and Leaseholder Consultation Forum
13 December 2017 to 12 January 2018	Consultation with customers	Consultation with: <ul style="list-style-type: none"> • All customers via NWLDC website • Tenant members of the Performance and Finance Working Group (14 December 2017)
10 January 2018	Policy Development Group	Opportunity for Members to consider proposals prior to agreement of final budget by Cabinet & Council
29 January 2018	Tenant and Leaseholders Consultation Forum	Draft budget consideration
6 February 2018	Cabinet Meeting	Approval of recommendations to Council
27 February 2018	Council	Approval of Budget