

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**POLICY DEVELOPMENT GROUP - WEDNESDAY, 10 JANUARY 2018**

Report Title	<b>DRAFT REVENUE BUDGET PROPOSALS GENERAL FUND AND HOUSING REVENUE ACCOUNT</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Chief Executive 01530 454500 <a href="mailto:bev.smith@nwleicestershire.gov.uk">bev.smith@nwleicestershire.gov.uk</a></p> <p>Financial Planning Manager/Deputy S151 Officer 01530 454707 <a href="mailto:tracy.ashe@nwleicestershire.gov.uk">tracy.ashe@nwleicestershire.gov.uk</a></p>
Purpose of report	To receive comments on the draft revenue General Fund Revenue and Housing Revenue Account budget proposals for 2018/19.
Council priorities	All Council priorities.
Implications:	
Financial/Staff	Financial issues are contained within the appended Cabinet reports.
Link to relevant CAT	All affected.
Risk Management	The revenue and capital budgets are monitored every month by management and reported to Cabinet through the quarterly Performance Reports. Projected over or under spends are identified and appropriate action taken.
Equalities Impact Screening	No impacts identified.
Human Rights	None identified.
Transformational Government	None identified.
Comments of Head of Paid Service	Report is satisfactory
Comments of Deputy Section 151 Officer	As author, report is satisfactory

Comments of Monitoring Officer	Report is satisfactory
Consultees	None
Background papers	None.
Recommendations	<b>THAT THE COMMITTEE PROVIDE ANY COMMENTS IT MAY HAVE FOR CONSIDERATION BY THE CABINET WHEN IT MEETS ON 6 FEBRUARY 2018 TO CONSIDER THE BUDGET REPORT AND RECOMMEND ITS PROPOSALS TO COUNCIL ON 27 FEBRUARY 2018.</b>

## 1.0 BACKGROUND

1.1 General Fund and Housing Revenue Account Draft Revenue Budget proposals for 2018/19 were presented to the Cabinet for approval for consultation at its meeting on 12 December 2017.

1.2 The Policy Development Group is invited to consider the proposals and provide any comments for the Cabinet to take into account when it agrees its final recommendations on 6 February 2018. A separate report appears on this agenda covering the Council's Capital Programmes and Medium Term Financial Strategy development.

1.2 Further details are included in the attached Cabinet reports:

Appendix 1 General Fund and Special Expenses Revenue Budget 2018/19

Appendix 2 Housing Revenue Account Revenue Budget 2018/19

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL  
CABINET – 12 DECEMBER 2017**

Title of report	<b>GENERAL FUND AND SPECIAL EXPENSES REVENUE BUDGET PROPOSALS FOR 2018/19</b>
Key Decision	a) Financial Yes b) Community Yes
Contacts	Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a>  Chief Executive 01530 454500 <a href="mailto:bev.smith@nwleicestershire.gov.uk">bev.smith@nwleicestershire.gov.uk</a>  Financial Planning Team Manager / Deputy S151 Officer 01530 454707 <a href="mailto:tracy.ashe@nwleicestershire.gov.uk">tracy.ashe@nwleicestershire.gov.uk</a>
Purpose of report	For Cabinet to approve 2018/19 General Fund and Special Expenses revenue budget proposals for consultation.
Reason for Decision	Required to complete 2018/19 budget process.
Council Priorities	The budget assists the Council to achieve all its priorities.
Implications:	
Financial/Staff	As contained in the report.
Link to relevant CAT	The budget is relevant to all Corporate Action Teams (CATs).
Risk Management	The budget will be monitored throughout the year to ensure savings are achieved and services delivered as planned.
Equalities Impact Screening	The requirement for equalities impact screening and assessments is being assessed during the consultations and details if required will be provided as part of the management responses.
Human Rights	None identified.
Transformational Government	Not applicable

Comments of Head of Paid Service	Report is satisfactory
Comments of Deputy Section 151 Officer	<b>As report author the report is satisfactory</b>
Comments of Deputy Monitoring Officer	<b>Report is satisfactory</b>
Consultees	<b>Corporate Leadership Team, 14 November 2017</b>
Background papers	<b>None.</b>
Recommendations	<b>CABINET IS RECOMMENDED TO :</b>  <b>1. AGREE THE 2018/19 BUDGET PROPOSALS FOR STATUTORY CONSULTATION.</b> <b>2. THAT THE ASSURANCE STATEMENT BY THE DEPUTY S151 OFFICER BE NOTED</b>

## 1.0 INTRODUCTION

- 1.1 This report seeks Cabinet approval to consult on the draft General Fund and Special Expenses 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 in February 2018.
- 1.2 Draft proposals for consultation have been prepared in the context of the continuation of the Governments four year settlement in respect of funding, alongside budget holders own projections in respect of expenditure budgets and locally generated income forecasts.
- 1.3 The draft budget position for 2018/19 therefore reflects current understanding in respect of Revenue Support Grant (RSG), New Homes Bonus and the level of business rates retained as part of the 4 year settlement offered by Central Government for the period 2016/17 to 2019/20. The Government is expected to announce the Provisional Local Government Finance Settlement around 15 December 2017, and refined estimates will be presented to Cabinet and Council as part of the final approval budget process on 6 and 27 February 2018 respectively.
- 1.4 A new approach to developing expenditure and locally generated income budgets has been taken for the 2018/19 year which has included a greater level of engagement with budget holders and a focus on more sophisticated estimates taken in order to reduce variance between budgeted and outturn position. This new approach has also projected the revenue position for 2019/20 to 2023/24 for indicative purposes only. This information will be presented to members as part of the final budget in February and to

inform sound decision making and demonstrate the financial impact of decisions. The 5 year projections are also used to inform the Medium Term Financial Plan as part of the Council's Medium Term Financial Strategy.

- 1.5 Members will be aware that the decision to outsource the Council's Hermitage and Hood Park leisure centre facilities and creation of a new £20m facility was approved by Council on 21 November 2017. Whilst this decision does not impact the Council in 2018/19 above the level of projected project costs agreed (£500k allocated from reserves), the indicative 5 year revenue forecast and 5 year Capital programme will demonstrate the impact of this decision within those years, including the impact of borrowing costs, as per the assumptions of the project.
- 1.6 Under the existing 50% Business Rates retention system, the level of business rates to be retained by the Council is not ultimately confirmed until after the end of the financial year when the actual level of Business Rates is reported. This means that the Council is not able to accurately predict local business rates income until after the budget has been approved by Cabinet and Council in February. However, work to determine this figure will inform the budget presented and approved.
- 1.7 The Council, along with all counterparties in respect of Business Rates in Leicester and Leicestershire, entered a bid to undertake in a 1 year pilot of 100% business rate retention. If successful, financial modelling undertaken by the Leicestershire Treasurer's Association (LTA) indicates that around £18.9m could be retained and shared across Leicestershire to be invested in Infrastructure and housing growth, town centre enhancements and financial sustainability. At the time of writing this report it is unknown as to whether the bid has been successful, however it is anticipated that the outcome of the process will be announced by the Department for Communities and Local Government in early December. If we are successful, the financial implications will be laid out in the provisional and final local government funding settlement announcements in December and February respectively. However it is important to note that under the proposed bid, the Council will be no worse off than it would have been was it not part of the pilot, and therefore the draft budgetary estimate as detailed within this report in respect of business rates income would not move adversely if the bid were successful.
- 1.8 During 2017/18 a greater emphasis has been placed on robust financial management in forecasting the Council's financial position. The aim of this revised approach is to reduce variance between budgeted and outturn position and provide budget holders with the opportunity to plan varying revenue budgets over the medium term to release surplus expenditure budgets and ensure that financial resources are allocated in line with the Council's agreed priorities.
- 1.9 The approved 2018/19 budget will undergo regular monitoring and scrutiny during the financial year through quarterly performance monitoring, so that when they arise any variances can be identified at an early stage and remedial action taken to deal with them where necessary.

## 2.0 **GENERAL FUND 2017/18 – PROJECTED OUTTURN**

- 2.1 The uncommitted balance on the General Fund is currently £2.4m.
- 2.2 The second quarter Performance Report considered by Cabinet in November presented outturn projections for the current year. A surplus of £1.196m is forecast compared to the original budget of £934k. This surplus will go into general reserves. The main reason for this is additional Business Rates income, offset by a number of adverse movements across service areas.
- 2.3 The General Fund forecast surplus outturn (as represented by the contribution to General Fund Balance) is £1.196m compared to a budget of £934k. Forecast income in respect of Business Rates has increased by £534k, due to changes in forecasts in respect of realised business growth within the District. This has been offset by a number of adverse movements, which include: an increase in the net deficit of the Leisure centres (£98k); an increase in public protection planning enforcement advice (£18k); an increase in waste services staffing costs (£55k); overspends on salary costs with planning policy (£22k) and public protection (£16k); and a forecast reduction in CCTV income (£12k).
- 2.4 The forecast uncommitted balance on the General Fund at 31 March 2018 is therefore, a forecast surplus of £3.596m.

## 3.0 **2018/19 NET REVENUE EXPENDITURE PROPOSALS**

- 3.1 The Councils net revenue expenditure position is affected by three main elements which include: the revenue expenditure in relation to the provision of services net of income generated through fees and charges and other income (including additional grants authorities apply for, which are not part of central government funding); and financing costs, broadly made up of investment income, interest charged in respect of loans and the minimum revenue provision charge made in respect of unsupported borrowing to fund capital expenditure.
- 3.2 For 2018/19, there has been an increase in net revenue expenditure of £1.45m, made up of a number of budgetary pressures (increased expenditure or reduced income) and savings (increased income or reduced expenditure). A summary of the proposals can be found in Appendix A.
- 3.3 A number of changes to the budget have been made in respect of Planning. An additional £120k (taking the total budget to £220k) has been set aside in the 2018/19 budget for the purposes of the first review of the Local Plan, following Secretary of State approval of the Local Plan in November 2017. In addition, the budget in respect of planning fee income has been reviewed and reduced by £100k to £1m for 2018/19 whilst the budget for legal advice and technical support in relation to planning appeals has increased from £150k to £200k to reflect the required budget.

- 3.4 In respect of our waste services, Members will recall that in September 2017, Leicestershire County Council awarded the contract for the treatment and disposal of dry recyclable material collected by the district Council following a competitive exercise in which the Council competed against private sector bidders. As a result of the change from 2017/18 recycling income forecasts have reduced from £782k to £436k for the 2018/19 year. The forecast is based on a prudent mid-range position of assessed forecasts of recycling tonnage and materials prices at 90% of those currently achieved. In addition, £20k has been set aside in the 2018/19 budget as a one year provision to cover the cost of undertaking route optimisation for the Council's waste service, to support the service to efficiently collect recyclable material across the growing District. Finally, income forecasts in respect of trade waste have increased favourably by £56k, reflecting the success of the commercial arm of the waste service.
- 3.5 The net deficit position of the leisure centres has increased by £132k, from £388k to £520k for the 2018/19 year. Of the main pressures, income forecasts have reduced by £30k for the 2018/19 year.
- 3.6 The budget in relation to Property Services has increased from £80k to £154k to reflect the additional costs of the service being managed in-house. A review of the interim arrangements for the in-house service are currently underway and any cost savings identified will be picked up during Quarter 1 of 2018/19.
- 3.7 The ICT supplies and services budget has increased by £234k to reflect the increased cost of equipment maintenance (£90k) and the data centre (£156k) and licence renewals (£34k) offset by savings in respect of printer leases and charges (£16k) and telephones (£30k).
- 3.8 The budget in respect of benefits payments has increased by £21k to reflect an increase in rent rebates and modified schemes partly offset by a reduction in rent allowances and bed & breakfast.
- 3.9 The net financing costs relating to General Fund activities has reduced by £41k from £1.053m to £1.012m. This charge reflects the interest cost payable on loans and the estimated minimum revenue provision required to be set aside on General Fund capital programme expenditure. The budget in respect of investment income has also moved favourably, increasing from £76k to £108k to reflect the level of return currently generated from investments.
- 3.10 The budget for the Council's contribution to top up the capital funding received from central Government in respect of Disabled Facilities Grants has reduced from £143k to £50k as a result of confirmation that the level of grant award for 2017/18 and beyond meets anticipated levels of DFG expenditure.
- 3.11 A saving of £25k has been included in the budget following Cabinet's decision in January 2017 to continue the Local Council Tax Support Scheme for 2017/18, but then to have a phased reduction of 25% per year thereafter. This budget reflects the level of

support for Town and Parish Councils. From April 2013 the Government abolished Council Tax Benefit and replaced it with locally determined Council Tax Support Discounts. Giving people discounts on their Council Tax reduces the Council Tax income which all the preceptors including Town and Parish Councils receive. The District and the major preceptors (County, Police and Fire & Rescue) receive Government grant which compensates, at least in part, for this loss of income. The Government does not provide this grant support to Town and Parish councils. Since the start of the new scheme this Council has given an element of its Council Tax Support Grant to Towns and Parishes to allow them to maintain their existing level of income. The budget for 2018/19 has therefore reduced by £25k to £143k

- 3.12 As a result of scrutinising historic expenditure budgets, a saving of £132k across a number of service areas has been identified. These budgets have previously been held to cover the costs of future liabilities arising as a result of legal challenge and appeal against planning decisions. The change in approach will see an allocation from existing unallocated earmarked reserves held as a provision for these potential future liabilities, so that the base budget reflects estimates in respect of anticipated liabilities only.
- 3.13 Increases in respect of staffing include a 1% pay award provision, incremental increases and the increase in respect of employer pension contributions total £675k, a further breakdown can be found in Appendix A.
- 3.14 A one off provision of £20k has been made for the implementation of a number of improvements identified through the review of the Annual Governance Statement, including the provision of training for members of the Audit and Governance Committee in fulfilling their roles in respect of financial management.
- 3.15 The net position in respect of budget increases and savings below a de-minimus level of £20k is a net increase of £43k. These changes are as a result of expenditure pressures and savings, and forecasts in respect of income.

#### 4.0 **2018/19 FUNDING**

- 4.1 The main sources of funding available to finance revenue expenditure are locally retained business rates, Council tax and government grants.
- 4.2 The provision local government finance settlement is due to be announced in mid-December. In the absence of confirmation of the New Homes Bonus, Revenue Support Grant, tariff and levy charges against business rates to be retained by the Council, estimates are based on known information as detailed below.
- 4.3 For 2018/19 there is an estimated increase in total funding of £990k, subject to the local government finance settlement and further work required in respect of council tax and business rates estimates. A summary of the estimates for 2018/19, compared to the 2017/18 budget can be found in the Budget Summary for 2018/19, Appendix B.
- 4.4 Under the existing 50% Business Rates retention system, the level of business rates to be retained by the Council is not ultimately confirmed until after the end of the financial



year when the actual level of Business Rates is reported. This means that the Council is not able to accurately predict the actual level of business rates likely to be collected during the following year until after the final budget has been approved at Council in February. In addition, it is difficult to forecast business growth, although the Council does have a good awareness of this and as a consequence is to be able to introduce some assumptions into budget predictions. The budgeted level of retained business rate income for 2018/19 is £4.6m has been estimated using the anticipated outturn for 2017/18 as at Quarter 2. This estimate does not currently include forecast growth likely to occur between this period and the end of the 2017/18 financial year, nor does it currently take account of the predicted growth in 2018/19. The Council will submit its projections of Business Rates for 2017/18 to the Government by the end of January 2018. The work in preparation for this may give us confidence to review the budget for this income before our final budget is presented for approval in February 2018.

- 4.5 The Council Tax Collection Fund is monitored throughout the year and the forecast income will be available from the fund towards next year's budget. The budget for 2018/19 has reduced by £7k from £285k to £278k.
- 4.6 The Council is not planning to increase the District's share of the Council Tax in 2018/19. This will be the ninth year without an increase. The budgeted level of Council tax income has increased by approximately £550k, from £4.96m for the 2017/18 year to £5.5m for the 2018/19 year. As is the case with business rates, work to identify and forecast growth across the district is underway and therefore the budget at this time reflects only the known council tax base as at October 2017 and current non-collection rate of 2%.
- 4.7 The level of New Homes Bonus for next year is determined by returns which have now been made to the Government. Notwithstanding the potential changes that might be made to the scheme in respect of planning decisions, the Council will receive £2.88m next year.
- 5.0 **2018/19 DRAFT BUDGET POSITION**
- 5.1 Given the proposals in respect of net revenue expenditure and funding forecasts as detailed above, the predicted surplus and contribution to General Fund reserves 2018/19 is £568k. Subject to 2017/18 outturn the 2018/19 position will take the General Fund level of general reserves from £3.596m at 31 March 2018 to £4.164m at 31 March 2019. The draft Budget Summary for 2018/19 can be found in Appendix B.
- 6.0 **SPECIAL EXPENSES**
- 6.1 The forecast outturn for 2017/18 in respect of Special Expenses budget is £486k at quarter 2 compared to a budget of £493k. Subject to this outturn, the balance brought forward will increase from £64k to £78k at 31 March 2018.
- 6.2 For 2018/19, the expenditure budget has increased by £20k as a result of service management increases (£12k), grounds maintenance increases (£5k) and events (£3k).

- 6.3 Until such time that the Council Tax Base is approved by Cabinet in January, the estimated position of Special Expenses balances cannot be detailed. This information will be presented as part of the final budget report approved by members in February 2018.

## 7.0 **MEDIUM TERM FINANCIAL STRATEGY**

- 7.1 The Council's Medium Term Financial Strategy 2017 – 2020 (MTFS) was last refreshed in October 2016. For 2018/19 and beyond, a new approach is being taken with 10 year Medium Term Financial Plan presented to members in February each year alongside the budget for approval, and reviewed by members each July to compare outturn to forecasts. The new approach will aid members in planning for the medium term in respect of its General Fund, HRA and Capital Programme budgets, with any future savings targets estimated along with recommendations of remedial actions or commercial initiatives.

- 7.2 The MTFS will therefore be updated following announcement of the provisional local government settlement for 2018/19 and will be presented to Cabinet and Council in February alongside budgets for approval. In addition, the MTFS will provide likely scenarios to assess the impact of the outcome of the Fair Funding review (anticipated to take effect from 2020/21) and the 100% business rate retention scheme, alongside proposals to increase the self-sufficiency of the Council by reducing the reliance on government grants in future years.

## 8.0 **CONSULTATION**

- 8.1 The Council will undertake a consultation on the Council's maintained service levels, Council Tax freeze and the plans to reduce the level of grants to Town and Parish Councils for 2018/19. Consultation is required with the business community, through the North West Leicestershire Chamber of Commerce, in compliance with the Non-Domestic Ratepayers (Consultation) Regulations 1992. There will also be consultation with Staff, Unions and Town and Parish Councils.
- 8.2 The Policy Development Group will be asked for its comments on the specific budget proposals during the consultation period at its next meeting on 10 January 2018.
- 8.3 The Cabinet will receive details of the consultations at its meeting on 6 February 2018 where it will make its final budget recommendations for approval by Council on 27 February 2018.

9.0 **ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES**

- 9.1 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.
- 9.2 The Deputy Section 151 Officer considers that the estimates which form the draft General Fund budget are robust and prudent, and the proposals are deliverable.
- 9.3 The Deputy Section 151 Officer also considers that the overall level of General Fund reserves is adequate.

**Expenditure Saving / Increase in Income**

<b>Title</b>	<b>Value</b>
Trade Waste Income	£56,000
Reduction in Net Financing Costs	£41,000
Increase in investment income	£32,000
Reduction in DFG contribution	£93,000
Reduction in Local Council Tax Support	£25,000
Removal of provisions with base budget	£132,000
<b>Total</b>	<b>£379,000</b>

**Increased Expenditure/ Reduction in Income**

<b>Title</b>	<b>Value</b>
Local Plan review costs	£120,000
Forecast reduction in Planning Income	£100,000
Planning appeals legal support	£50,000
Reduction in recycling income	£346,000
Waste services route optimisation	£20,000
Increase in Leisure centres net deficit	£132,000
Property services	£74,000
ICT supplies and services	£234,000
Benefits payments	£21,000
Staffing costs, including: <i>Incremental increases £123,000</i> <i>Pay Award £122,000</i> <i>Living Wage £5,000</i> <i>Pension increases £102,000</i> <i>Establishment changes implemented in 2017/18 but not previously budgeted for £254,000</i> <i>Other £69,000</i>	£675,000
Budget provision to support improvements identified through the Annual Governance Statement	£20,000
Other de-minimus changes (below £20k)	£43,000
<b>Total</b>	<b>£1,835,000</b>

## APPENDIX B

### NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL SUMMARY BUDGET 2018/19

2017/18 Budget £	2017/18 Forecast Outturn @P6 £	Service	2018/19 Budget £
277,360	250,750	Chief Executive	275,820
395,020	434,700	Human Resources	397,420
653,320	675,560	Economic Development	717,370
7,750	8,120	Joint Strategic Planning	8,080
112,200	66,530	Director of Resources	112,310
2,467,140	2,324,880	Legal & Support Services	2,486,920
2,004,450	2,407,830	Finance	2,661,260
<b>5,917,240</b>	<b>6,168,370</b>	<b>Total Chief Executive's Department</b>	<b>6,659,180</b>
346,540	334,540	Director of Services	340,730
4,432,530	4,439,010	Community Services	5,007,190
482,940	499,950	Strategic Housing	478,980
300,440	337,510	Regeneration & Planning	486,880
<b>5,562,450</b>	<b>5,611,010</b>	<b>Total Director of Services</b>	<b>6,313,780</b>
10,090	39,730	Non Distributed - Revenue Expenditure on Surplus Assets	9,580
77,400	120,430	Non Distributed - Retirement Benefits	77,810
45,310	38,410	Corporate & Democratic Core	44,600
<b>11,612,490</b>	<b>11,977,950</b>	<b>NET COST OF SERVICES</b>	<b>13,104,950</b>
(1,187,020)	(1,231,840)	Net Recharges from General Fund	(1,246,010)
<b>10,425,470</b>	<b>10,746,110</b>	<b>NET COST OF SERVICES AFTER RECHARGES</b>	<b>11,858,940</b>
<b>CORPORATE ITEMS AND FINANCING</b>			
<b><u>Corporate Income and Expenditure</u></b>			
1,053,104	1,053,104	Net Financing Costs	1,011,970
(76,000)	(123,800)	Investment Income	(108,000)
167,821	167,821	Localisation of Council Tax Support Grant - Parish & Special Expenses	143,323
0	0	Various Chief Executive items	20,000
<b>11,570,395</b>	<b>11,843,235</b>	<b>NET REVENUE EXPENDITURE</b>	<b>12,926,233</b>
934,465	1,196,193	Contribution to Balances/Reserves	567,898
<b>12,504,860</b>	<b>13,039,428</b>	<b>MET FROM GOVT GRANT &amp; COUNCIL TAX (Budget Requirement)</b>	<b>13,494,131</b>
<b>Financed By</b>			
572,000	572,670	Formula Grant	235,000
2,840,452	2,840,452	New Homes Bonus	2,884,328
284,880	284,880	Transfer from Collection Fund	277,787
4,957,528	4,957,528	Council Tax	5,501,768
3,850,000	4,383,900	National Non-Domestic Rates Baseline	4,595,248
<b>12,504,860</b>	<b>13,039,430</b>	<b>TOTAL FUNDING AVAILABLE</b>	<b>13,494,131</b>
<b><u>SPECIAL EXPENSES</u></b>			
493,120	486,117	Community Services	513,370
<b>493,120</b>	<b>486,117</b>	<b>NET COST OF SERVICES AFTER RECHARGES</b>	<b>513,370</b>
<b>Financed By</b>			
(5,722)	(5,820)	Use of Reserves	21,433
435,339	424,192	Council Tax	424,192
65,503	67,745	Localisation of Council Tax Support Grant	67,745
<b>495,120</b>	<b>486,117</b>		<b>513,370</b>

## NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

## CABINET – 12 DECEMBER 2017

Title of report	<b>HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSALS FOR 2018/19</b>
Key Decision	a) Financial Yes b) Community Yes
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Councillor Roger Bayliss 01530 411055 <a href="mailto:roger.bayliss@nwleicestershire.gov.uk">roger.bayliss@nwleicestershire.gov.uk</a></p> <p>Chief Executive 01530 454500 <a href="mailto:Bev.smith@nwleicestershire.gov.uk">Bev.smith@nwleicestershire.gov.uk</a></p> <p>Director of Housing 01530 454555 <a href="mailto:glyn.jones@nwleicestershire.gov.uk">glyn.jones@nwleicestershire.gov.uk</a></p> <p>Financial Planning Manager and Deputy Section 151 Officer 01530 454707 <a href="mailto:tracy.ashe@nwleicestershire.gov.uk">tracy.ashe@nwleicestershire.gov.uk</a></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	As included in report.
Link to relevant CAT	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.
Risk Management	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.

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

## 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 to 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.

- 4.10 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 Section Deputy 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 £
	<b>HOUSING REVENUE ACCOUNT</b>			
1.	TOTAL REPAIRS & MAINTENANCE	5,354,970	5,408,410	5,460,160
	<b>SUPERVISION &amp; MANAGEMENT</b>			
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
	CAPITAL FINANCING - SELF FINANCING			
19.	DEBT	3,257,170	3,257,170	3,257,170
20.	INVESTMENT INCOME	-43,860	-71,310	-62,000
	PREMATURE LOAN REDEMPTION			
21.	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
	<b>HRA BALANCES</b>			
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 Reser	142,110	256,790	2,996,095
31.	HRA General Balance as at year er	-1,000,000	-1,000,000	-1,000,000
	Loan Repayment Reserve			
32.	balance	-8,054,344	-8,169,024	-11,165,119

**Saving / Increase in Income**
**APPENDIX B**

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
<b>Total</b>			<b>£341,820</b>	

**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
<b>Total</b>			<b>£318,608</b>	

COMPARISON OF 2017/18 AND 2018/19 HOUSING CHARGES							
Chargeable Service	2017/18		2018/19			Charge	Basis of Increase
	Actual 2017/18	Charge	Estimates 2018/19	Increase/ (Decrease)	Percentage Change		
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.
<b>Total Services</b>	<b>£919,149</b>		<b>£929,152</b>	<b>£10,003</b>	<b>1.08%</b>		



**NWLDC Housing Revenue Account Loan Schedule**

**NWLDC - HRA Self Financing loans taken up 26/03/12**  
**PAYMENT PROFILE - PRINCIPAL AND INTEREST**

<b>Loan Type</b>	<b>Principal</b>	<b>Loan Period (Years)</b>	<b>Interest Rate</b>
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
	<b>76,785,000</b>		

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"> <li>• All customers via NWLDC website</li> <li>• Tenant members of the Performance and Finance Working Group (14 December 2017)</li> </ul>
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