

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY 11 DECEMBER 2018

Title of report	HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSALS FOR 2019/20
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>Strategic Director of Housing and Customer Services 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance and Section 151 Officer 01530 454707 tracy.bingham@nwleicestershire.gov.uk</p>
Purpose of report	To seek approval of the draft 2019/20 Housing Revenue Account (HRA) Budget proposals for consultation.
Reason for Decision	To enable the Council to set a balanced Housing Revenue Account Budget for 2019/20.
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 2019/20 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 Screening	None identified.
Human Rights	None identified.

Transformational Government	Not applicable
Comments of Deputy Head of Paid Service	Report is satisfactory
Comments of Section 151 Officer	Report is satisfactory
Comments of Monitoring Officer	Report is satisfactory
Consultees	Corporate Leadership Team (CLT).
Background papers	None
Recommendations	<p>THAT CABINET:</p> <p>A. NOTE THE ASSURANCE STATEMENT BY THE S151 OFFICER; AND</p> <p>B. 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 2019/20, 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 12 December 2018 and end on 11 January 2019 in readiness for Cabinet and Full Council approval of final proposals on 5 and 24 February 2019 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 HRA Budgets from 2016/17 onwards and the long term business plan. The Government has announced that from 2020 rent increases can be applied (limited to 1% above CPI), which provides more certainty for medium term financial planning. However, ongoing inflationary pressures, coupled with the 1% rent reduction for 2019/20, will certainly present financial challenges to the Housing service in the short term.

2.0 2018/19 BUDGET POSITION

- 2.1 The budgeted outturn position for 2018/19 was a £2.946m surplus. The overall forecast for the current year at period 7 shows a surplus of £3.217m resulting in an increase to the forecast surplus of £271,000. This is largely as a result of savings in energy costs, partly as a result of an over accrual in 2017/18, savings in Council Tax as a result of fewer empty properties, together with additional income from rents, mainly as a result of increased void performance and additional income from interest on balances.
- 2.2 As a result of this the balance on the Housing Revenue Account at 31 March 2019 is estimated to be £12.6m 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 in 2022.
- 2.3 After 2022, it is proposed that the council will not automatically use any surpluses to pay into a loan redemption reserve for the repayment of maturity loans that next become payable in 2037. This will allow the council more flexibility and the ability to use future surpluses to either invest in capital improvements, new housing stock, service improvements or repayment of debt. The existing annuity loans will of course continue to be repaid as outlined in Appendix D. This decision will be presented to members formally as part of the Treasury Management Strategy Statement for 2019/20 at Cabinet and Council in February 2019.

3.0 2019/20 BUDGET OVERVIEW

- 3.1 Budget proposals are based on prices and levels of charges for Council Housing related services at September 2018 plus other known increases, for example contractual uplift obligations.
- 3.2 The process of determining the 2019/20 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 2019/20 budget are shown within Appendix A.
- 3.4 For 2019/20, the level of revenue contribution to capital outlay (RCCO) will be £1.7m.
- 3.5 The draft budget for 2019/20 is estimated to produce an operating surplus / deficit of zero, after making a contribution of £1.4m to the debt repayment reserve, which will take total estimated HRA balances at 31 March 2020 to £14m. The HRA working balance will be £1m and the remaining £13m will be held in the debt repayment reserve to repay the debt that matures in 2021/22.

4.0 2019/20 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 2018, only 60% 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 for 4 years, 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 Earlier this year the Government announced a five-year rent policy from April 2020 which enables annual rent increases of CPI plus 1%. This has been built into the thirty-year HRA business plan.
- 4.6 The level of rent loss due to the void properties target included in the budgeted rental income is 0.8%, a reduction from 1.0% assumed in the previous year.
- 4.7 As a result of the 1% rent reduction, and 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 £20k less than budgeted for in 2018/19.
- 4.8 A number of accounting and budget estimate amendments have been made from 2018/19, which are set out in Appendix B. The most significant of those are as follows:
- an increase of £243k in employee costs for the cost of the pay award, increments and posts approved during 2018/19, which were not reflected in the original budget
 - savings of £157k as a result of a net reduction in salary costs after recharges to the General Fund and Capital Programme
 - savings of £126k in the redecoration programme. During 2019/20 a five year plan will be produced of internal and external decoration including replacement of soffit and fascias with plastic
 - savings of £200k for responsive repairs and maintenance due to an increase in efficiency as resources are diverted to the Home Improvement Programme.

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 2019/20 average weekly service charges are proposed to be increased by 7.96%. Included within this is the charge for laundry room services where applicable.
- 5.3 Central heating charges are proposed to be maintained at existing levels, based on forecast energy prices anticipated for 2019/20.
- 5.4 Garage rent levels are proposed to rise by 3.3%, which is in line with the Retail Prices Index (RPI) as at September 2018.
- 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 3.3% on the anniversary of each individual rent agreement in 2019/20.
- 5.6 It is proposed that Lifeline Charges are increased by RPI of 3.3% from April 2019 for both East Midlands Housing as per the contract, and for private customers.
- 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 will be required in future years if the Council wishes to meet the loan repayment commitments in the HRA Business Plan which become due in 2042, instead of considering other options such as refinancing. As detailed in 2.2 above, existing balances and 2019/20 surpluses will be transferred to the debt repayment reserve for the purposes of repaying the first tranche of those loans, which fall due 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 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 Depending on how the Council wishes to deal with the 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 £8.4m in 2041/42 and a further £40.8m by the end of the 30 year period in 2048/49.
- 6.4 It should be noted that any 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 a requirement for a revenue contribution to capital outlay (RCCO) for 2019-20 of £1.7m to support the acquisition of new, affordable housing through section 106, or other, agreements with developers. Future amounts are forecast to be required in order to support the capital programme, including new build proposals, as follows:

RCCO

- 2021/22 - £0.1m
- 2022/23 - £0.6m

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 2019/20 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 9 January 2019.
- 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 Section 151 Officer considers that the estimates which form the Housing Revenue Account Budget for 2019/20 are robust and prudent, and the proposals are deliverable.
- 8.3 The Section 151 Officer also considers that the overall level of Housing Revenue Account reserves is adequate.

APPENDIX A

LINE NO.	DETAIL	2018/2019		2019/2020
		Budget £	Forecast (p7) £	Estimate £
	HOUSING REVENUE ACCOUNT			
1.	TOTAL REPAIRS & MAINTENANCE	5,505,420	5,492,280	5,387,500
	SUPERVISION & MANAGEMENT			
2.	General	2,156,750	2,018,390	2,140,060
3.	Special / Supporting People	530,830	557,220	559,960
4.		2,687,580	2,575,610	2,700,020
5.	PROVISION -DOUBTFUL DEBTS	100,000	100,000	100,000
6.	CAPITAL FINANCING:-			
7.	Depreciation - MRA & other	3,139,190	3,139,190	3,139,190
8.	Debt Management Expenses	1,210	1,210	2,750
9.		3,140,400	3,140,400	3,141,940
10.	TOTAL EXPENDITURE	11,433,400	11,264,520	11,329,460
11.	RENT INCOME			
12.	Dwellings	17,029,440	17,137,380	17,009,750
13.	Service Charges	512,300	477,010	553,070
14.	Garages & Sites	72,640	68,140	65,920
15.	Other	19,960	19,540	19,920
16.	TOTAL INCOME	17,634,340	17,702,070	17,648,660
17.	NET COST OF SERVICES	-6,200,940	-6,437,550	-6,319,200
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	-83,700	-117,590	-108,550
21.	PREMATURE LOAN REDEMPTION PREMIUMS	7,060	7,060	7,060
22.		3,305,530	3,271,640	3,280,680
23.	NET OPERATING EXPENDITURE	-2,895,410	-3,165,910	-3,038,520
24.	REVENUE CONTRIBUTION TO CAPITAL	0	0	1,700,000
25.	DEPRECIATION CREDIT - VEHICLES	-50,730	-50,730	-50,730
26.		-50,730	-50,730	-50,730
27.	NET (SURPLUS) / DEFICIT	-2,946,140	-3,216,640	-1,389,250
	HRA BALANCES			
28.	Balance Brought Forward	-1,000,000	-1,000,000	-1,000,000
29.	(Surplus)/Deficit for Year	-2,946,140	-3,216,640	-1,389,250
30.	Transfer to Loan Repayment Reserve	2,946,140	3,216,640	1,389,250
31.	HRA General Balance as at year end	-1,000,000	-1,000,000	-1,000,000
32.	Loan Repayment Reserve balance	-11,196,204	-11,601,122	-12,990,372

APPENDIX B

Saving / Increase in Income

Ref	Team	HRA Savings Bid Title	Value	RAG
SAV1	Housing Management	Council Tax Liabilities	-£25,000	g
SAV2	Income and Systems	CBL Advertising	-£4,520	g
SAV3	Asset Management	Painting Programme	-£125,680	g
SAV4	Housing Management	Reduction in Rent Loss due to improved performance 0.8%	-£36,000	g
SAV5	Housing Management	Service Charges	-£40,769	g
SAV13	Income and Systems	Legal and Professional Services	-£30,000	g
SAV14	Income and Systems	Bank Charges	-£1,000	g
SAV15	Income and Systems	Miscellaneous Expenditure	-£1,000	g
SAV16	Income and Systems	Review of HRA Business Support Budgets	-£1,750	g
SAV17	Asset Management	Solid Fuel Servicing	-£69,200	g
SAV18	Housing Management	HRA Hardship Fund	-£9,000	g
SAV19	HRA	Increase in Rent Income due to extra rent day in 2019/20	-£46,640	g
SAV20	HRA	Increase in Rent Income due to additional affordable rented properties	-£248,550	g
SAV21	Commercial Services	Responsive & Maintenance Charges (RTB Sales)	-£15,900	g
SAV22	Commercial Services	Responsive & Maintenance Charges (increased Efficiency)	-£200,000	g
SAV23	HRA	Net reduction in salary costs after recharges to GF and Capital	-£157,100	g
Total			-£1,012,109	

Investments / Reduction in Income

Ref	Team	HRA Investments Bid Title	Value	RAG
BI1	Housing Management	Support Officer (Universal Credit), following withdrawal of grant	£38,000	g
BI2	Asset Management	Compliance - Electrical Inspections	£88,670	g
BI3	Asset Management	Compliance - Third-party auditors for gas, etc.	£13,646	g
BI4	Asset Management	Air source heat pumps servicing	£34,000	g
BI5	HRA	Annual Contract Inflation	£20,115	g
BI6	Commercial Services	Materials Supply Chain - Annual Contract Inflation	£14,300	g
BI7	Housing Management	Removal of Assistive Technology Fees and Charges Budget	£8,670	g
BI9	HRA	1% Rent Reduction	£170,300	g
BI10	Income	Garage and Garage Site Rents	£6,723	g
BI11	Housing Management	Tunstall Disaster Recovery	£7,500	g
BI12	Housing Management	Laundry Rooms Service Contract	£19,773	g
BI15	Income and Systems	Subscriptions	£4,500	g
BI16	Income and Systems	Computing Costs	£5,000	g
BI17	HRA	Rent loss through stock reductions	£180,580	g
BI18	HRA	Employee cost changes (pay award, increments, new asset management posts)	£243,050	g
Total			£854,827	

APPENDIX C

COMPARISON OF 2018/19 AND 2019/20 HOUSING CHARGES							
	2018/19		2019/20				
Chargeable Service	Actual Income 2018/19	Charge	Income Estimates 2019/20	Increase/ (Decrease)	Percentage Change	Charge	Basis of Increase
Service Charges	£509,865	Varies per property	£550,993	£41,128	8.07%	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 2018/19 and 2019/20.
Garage & Garage Site Rent	£79,484	Garage: £6.68pw Site: £4.28pw	£72,761	£6,723	-8.46%	Garage: £6.91pw Site: £3.43pw	September 2018 RPI increase in line with previous years
Appleby Magna Caravan Site Rent	£16,527	Site: £33.23pw	£13,756	£-2,771	-16.77%%	Site: £34.39pw	September 2018 RPI increase at anniversary date of each licence in line with previous years.
Shop Leases	£18,584	n/a	£21,186	£2,602	14.00%	Varies by location	14% increase based on Nov 14 Cabinet Report
Tenants Contents Insurance	£51,961	Premiums from £0.36 to £7.41pw	£51,961	£0	0.00%	Premiums from £0.36 to £7.41pw	No increase, but assumes IPT will be unchanged.
Lifelines for private customers	£119,310	£3.95 pw basic, £5.95 p.w enhanced	£123,247	£3,937	3.30%	£4.08pw basic, £6.15pw enhanced 3.3% increase also proposed for all sensor elements	September 2018 RPI increase
Lifelines (East Midlands Housing Association)	£40,493	Various depending on scheme but average increase from £2.88 to £2.99 pw	£41,829	£1,336	3.30%	Various depending on scheme but average increase from £2.99 to £3.09pw	September 2018 RPI increase in line with previous years
Total Services	£920,774		£960,283	£39,509	4.29%		

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 2019/20 Budget Timetable

Date	Item	Information
26 November 2018	Budget considerations and headlines	Members of Tenants and Leaseholder Consultation Forum
12 December 2018 to 11 January 2019	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 (13 December 2018)
11 January 2019	Policy Development Group	Opportunity for Members to consider proposals prior to agreement of final budget by Cabinet & Council
28 January 2019	Tenant and Leaseholders Consultation Forum	Draft budget consideration
5 February 2019	Cabinet Meeting	Approval of recommendations to Council
24 February 2019	Council	Approval of Budget