

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 13 DECEMBER 2016

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| Title of report | HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSALS FOR 2017/18 |
| Key Decision | <p>a) Financial Yes</p> <p>b) Community Yes</p> |
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| Purpose of report | To seek approval of the draft 2017/18 Housing Revenue Account (HRA) Budget proposals for consultation. |
| Reason for Decision | To enable the Council to set a balanced Housing Revenue Account Budget for 2017/18. |
| Council Priorities | The HRA budget assists the Value for Money priority. |
| <p>Implications:</p> <p>Financial/Staff</p> <p>Link to relevant CAT</p> <p>Risk Management</p> | <p>As included in report.</p> <p>Delivering a HRA Budget for 2017/18 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> |

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| Equalities Impact Screening | None identified. |
| Human Rights | None identified. |
| Transformational Government | Not applicable. |
| Comments of Deputy Chief Executive | The report is satisfactory. |
| Comments of Deputy Section 151 Officer | The report is satisfactory. |
| Comments of Monitoring Officer | The report is satisfactory. |
| Consultees | Corporate Leadership Team (CLT) |
| Background papers | None |
| Recommendations | <p>A. THAT THE ASSURANCE STATEMENT BY THE DEPUTY S151 OFFICER BE NOTED,</p> <p>B. THAT CABINET APPROVE THE DRAFT HRA BUDGET PROPOSAL 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 2017/18, 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 2016 and end on 12 January 2017 in readiness for Cabinet and Full Council approval of final proposals on 7 and 23 February 2017 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. Although inflation is now predicted to rise towards the end of 2017, it is still considered prudent to retain the assumption of lower long term rent increases. However, inflationary pressures from late 2017 onwards, coupled with the ongoing 1% rent reductions, will certainly present financial challenges to the Housing service going forward.

2.0 2016/17 BUDGET POSITION

- 2.1 The budgeted position for 2016/17 was a £2.395m surplus. The overall forecast at period 6 shows a potential surplus of £2.5m. This is largely as a result of improved performance in letting empty properties, which produces lower rent losses.
- 2.2 As a result of this, the total value of HRA balances at 31 March 2017 is estimated to be £8.2m. This balance significantly exceeds our agreed minimum working balance on the HRA of £1m and has been developed as a provision against 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. Hence £7.2m will be held in a savings reserve (at 31 March 2017) that was created for the purposes of repaying these loans commitments, in addition to the £1m minimum balance, taking total reserves to £8.2m

3.0 2017/18 BUDGET OVERVIEW

- 3.1 Budget proposals are based on prices and levels of charges for Council Housing related services at September 2016 plus known increases, for example contractual obligations.
- 3.2 The process of determining the 2017/18 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 2017/18 budget are shown within Appendix A. Not included as a specific sum in the proposed investments is the future development of the housing management ICT systems, which are due for replacement or significant upgrading in the next few years. Options will be developed in the coming months and estimated costs evaluated for inclusion in subsequent years budget proposals.
- 3.4 Central government announced on 23 November 2016 that local authorities are no longer required to implement a “pay to stay” policy (charging higher rents to those tenants with higher incomes, with any additional income being returned to the Treasury), although it had always been assumed that the financial impact of any such policy would have been neutral.
- 3.5 In relation to the proposed sale of higher value empty homes, a provision of £0.5m originally included in 2016/17 capital programme will be revised to nil and carried forward to create a notional £1m provision for 2017/18. Guidance from DCLG has now been issued stating that central government will be funding the Right To Buy Pilot for housing association tenants, and that local authorities will not be required to make any Higher Value Asset Payments in 2017/18. It is proposed that we retain this £1m provision in the budget whilst we await further clarification from government as to how the policy may impact on local authorities from 2018/19 onwards. If, at a later date, it becomes possible to release this provision for other purposes, it is proposed that initial consideration be given to reducing the income target from HRA asset disposals. Capital budgets will be the subject of a separate report to Cabinet.

- 3.6 For 2017/18, the level of revenue contribution to capital outlay (RCCO) is proposed to increase from nil to £2.03m. This is as a result of taking forward the new build projects for the brownfield site (Coalville), Greenacres (Coalville) and Willesley Estate (Ashby) sites as presented to Cabinet on 10 November 2015.
- 3.7 The budget for 2017/18 is estimated to produce an operating surplus / deficit of zero, after making the RCCO and a contribution of £276k to the debt repayment reserve, which will take total estimated HRA balances at 31 March 2018 to £8.5m. The HRA working balance will remain at £1m and the remaining £7.5m will be held in the debt repayment reserve.
- 3.8 In the years following 2017/18, 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:
- 2018/19 - £0.0m
 - 2019/20 - £1.2m
 - 2020/21 - £1.8m
 - 2021/22 - £0.0m

4.0 2017/18 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 2016, only 55% 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 has not altered despite this direction and there is therefore some scope to review rent levels in respect of the valuation element of the rent formula (which is currently based on 1999 values). A review is currently underway to determine the financial impact of a revaluation of Council Housing stock, so we can assess the potential effect it may have on future rent levels, and income streams. This may lead to some small changes in the rents of some council properties. Any further proposals will be presented for Cabinet approval at a later date.

- 4.6 The level of rent loss due to void properties target included in the budgeted rental income is 1.5%, a reduction from 1.8% assumed in the previous year.
- 4.7 As a result of the 1% rent reduction for 2017/18 and lower property numbers due to RTB sales, net budgeted rental income is £305k less than budgeted in 2016/17.
- 4.8 Until 2015/16 the long term HRA business plan had a core assumption that future rents would increase by 2.5% (notwithstanding the four year 1% rent reductions from 2016) and this was a standard benchmark assumption across most social housing landlords. In view of current government policy and the outlook for inflation, that assumption was revised downwards to 1.5% for the 2016/17 budget. It is not considered appropriate to make any further change to that assumption. This has a significant impact on projected future rental income flows, and over the 30 year business plan period additional efficiencies and further savings will still need to be identified.

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, whilst all other fees and charges are not.
- 5.2 For 2017/18 average weekly service charges are proposed to be increased by an average of 0.9% to reflect changes in usage patterns and costs.
- 5.3 In addition, tenants are due to be consulted about plans to introduce or enhance communal cleaning to approximately 70 blocks where the service is not currently provided. The costs will be recovered in full through a service charge and in total these are estimated to be £66,763 per annum which will require an average service charge currently estimated at approximately £3.95 per week.
- 5.4 Central heating charges are currently proposed to be maintained at existing levels, pending an update to the contractual arrangements for gas and electricity supply for 2017/18.
- 5.5 Garage rent levels are proposed to rise by 2.0% which is in line with the Retail Prices Index (RPI) as at September 2016.
- 5.6 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 2.0% on the anniversary of each individual rent agreement in 2017/18.
- 5.7 It is proposed that Lifeline Charges are increased by RPI of 2.0% from April 2017 for East Midlands Housing as per the contract, but for 8% for private customers, in line with an updated marketing plan for the Lifeline Service.
- 5.8 Shop leases are proposed to rise by 14% as agreed by Cabinet in November 2014 as part of the process of gradually moving them to a market rent..
- 5.9 A table detailing each charge increase can be found in Appendix B.

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 C 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 shortfalls of £22m in 2041/42 and a further £22m by the end of the 30 year period on 2045/46.
- 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 The revenue contribution to capital outlay (RCCO) for 2017/18 is £2.03m. Future amounts are forecast to be required in order to support the capital programme, including new build proposals, as follows:

RCCO

- 2018/19 - £2.81m
- 2019/20 - £0.6m
- 2020/21 - £0.0m
- 2021/22 - £0.0m

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 2017/18 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 11 January 2017.
- 7.5 A copy of the consultation timetable can be found in Appendix D.

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 2016/17 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.

Saving / Increase in Income
APPENDIX A

| Ref | Team | Savings Bid Title | Value | RAG |
|------------|------------------------|--|------------------|-----|
| SAV1 | Housing Management | Removal of two Support Officer posts within Older Persons Service | -£56,250 | G |
| SAV2 | Housing Management | DWP Funding to continue Support Officer (Universal Credit) role | -£13,000 | G |
| SAV3 | Housing Management | Council Tax Expenses impact following reduction in number of empty properties | -£29,880 | G |
| SAV5 | Asset Management Team | Mechanical Air Extraction | -£15,000 | G |
| SAV7 | Asset Management Team | Reduction in DLO spend on fuel | -£6,000 | G |
| SAV8 | Asset Management Team | Tipping Charges | -£9,090 | G |
| SAV11 | Housing Management | Lifeline Service Remodelling | -£6,240 | G |
| SAV13 | Housing Management | Additional income from Court Cost increases | -£7,850 | G |
| SAV14 | HRA Business Support | Reduction in the level of corporate recharges to the HRA | £-200,000 | G |
| SAV 15 | HRA Business Support | Merging of Energy Strategy Officer position with another post (80% saving) | -£31,730 | G |
| SAV16 | Housing Management | AMCS HRA Management Fee charge to the General Fund | -£15,650 | G |
| SAV18 | Asset Management Team | Reduction in responsive & maintenance costs as a result of right to buy sales | -£32,000 | G |
| SAV19 | HRA Business Support | Budgeted reduction in void rate from 1.8% to 1.5% | -£52,300 | G |
| SAV20 | HRA Business Support | Introduction of communal cleaning into flats | -£66,760 | G |
| De-min SAV | De-minimis (below £5k) | Online Document Access for Tenant Scrutiny Panel (SAV2) £1,000; Repairs charges for Leaseholders (SAV17) £460; Repairs to shared common parts (SAV22) £3,430; Fire extinguisher servicing (SAV23) £480; Increase in garage rent (SAV24) £1,500; Door entry maintenance charges (SAV25) £620; Annual increase in cleaning contract £370 | -£7,860 | G |
| Total | | | -£549,610 | |

Investment / Reduction in Income

| Ref | Team | Investments Bid Title | Value | RAG |
|-----------|----------------------------|---|-----------------|-----|
| BI2 | Housing Management | Introduction of CCTV to Cropston Drive | £5,000 | G |
| BI3 | Housing Management | Continue Support Officer (Universal Credit) role in Housing Management Team | £31,000 | G |
| BI5 | Housing Management | Impact of increased Court Cost fees | £17,000 | G |
| BI12 | Housing Management | Additional Lifeline Equipment in support of marketing plan | £10,000 | G |
| BI18 | Asset Management Team | DLO cost of living salary increases | £30,150 | G |
| BI19 | Housing Revenue Account | Housing Team cost of living increase and Asset Management Team Restructure Charges | £89,800 | G |
| BI22 | Director & Head of Housing | Removal of Salary Turnover for Director and Head of Housing | £5,350 | G |
| BI23 | HRA Business Support | Funding in support of Greenhill youth facilities | £25,000 | G |
| BI26 | Asset Management Team | Amendment to the apportionment of revenue and capital salary costs following the restructure of the Asset Management team | £132,370 | G |
| BI27 | Housing Management | Additional expenditure with introducing service charge for cleaning of common parts in flats | £66,760 | G |
| De-min BI | De-minimis (below £5k) | Insurance premium payments for TARAs (BI4) £700; Increased subscriptions including Housing Ombudsman (BI11) £4,800; Annual contract increases (BI13) £3,620; Grounds maintenance annual increase (BI25) £1,020; Annual increase cleaning contract (BI24) £370 | £10,510 | G |
| Total | | | £422,940 | |

COMPARISON OF 2016/17 AND 2017/18 HOUSING CHARGES

APPENDIX B

| Chargeable Service | 2016/17 | | 2017/18 | | | Basis of Increase | |
|--|-----------------|--|-------------------|----------------------|----------|---|---|
| | Actual 2016/17 | Charge | Estimates 2017/18 | Increase/ (Decrease) | % Change | | Charge |
| Service Charges | £492,107 | Varies per property | £573,988 | £81,881 | 16.64% | Largest increase value: £2.88 pw or 84%; Largest decrease value: £1.36pw or - 98% | Based on assessment of all chargeable services and introduction of cleaning for blocks |
| Central Heating (before adjustments to income for void loss) | £115,223 | 0 Bed: £7.75pw 1 Bed: £9.34pw 2 Bed: £10.72pw 3 Bed: £12.32pw | £115,223 | £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 increase in utility costs during 2016/17 and forecast energy prices for 2017/18. |
| Garage & Garage Site Rent (before adjustments to income for void loss) | £75,000 | Garage: £6.30pw Site: £4.04pw | £76,500 | £1,500 | 2.00% | Garage: £6.43pw Site: £4.12pw | September 2016 RPI increase in line with other years |
| Appleby Magna Caravan Site Rent (before adjustments to income for void loss) | £15,595 | Site: £31.19pw | £15,907 | £312 | 2.00% | Site: £31.81pw | September 2016 RPI based increase at anniversary date of each licence in line with previous years. |
| Shop Leases | £14,300 | n/a | £16,302 | £2,002 | 14.00% | n/a | 14% increase based on Nov 2014 Cabinet Report |
| Tenants Contents Insurance | £45,883 | Premiums from £0.44 to £6.70pw | £51,299 | £256 | 0.50% | Premiums from £0.44 to £6.78pw | Minimum increase in price of 0.5% in IPT, not yet known if any further increase in premiums due to renegotiation of framework agreement |
| Lifelines for private customers | £100,726 | £3.39 per week | £108,789 | £8,063 | 8.00% | £4.18pw based on marketing plan | Private lifelines marketing plan to be presented by Housing Management |
| Lifelines (East Midlands Housing Association) | £38,209 | Various depending on scheme | £38,973 | £764 | 2.00% | Various depending on scheme | September 2016 RPI increase in line with other years |
| Choice Based Lettings Advertising Costs | £28,000 | n/a | £22,000 | £-6,000 | -21.43% | n/a | Reduction based on c100 fewer void properties from Housing Management |
| Total Services | £925,042 | | £1,018,981 | £93,939 | | | |

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 | 10,000,000 | 30 | 3.5 |
| Annuity | 10,000,000 | 20 | 2.57 |
| Maturity | 10,000,000 | 10 | 2.4 |
| Maturity | 3,000,000 | 10 | 2.4 |
| Annuity | 10,000,000 | 15 | 2.02 |
| Maturity | 10,000,000 | 25 | 3.44 |
| Maturity | 13,785,000 | 30 | 3.5 |
| Maturity | 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 2016/17 Budget Timetable

| Date | Item | Information |
|-------------------------------------|-------------------------------------|--|
| 28 November | Budget considerations and headlines | Members of Tenants and Leaseholder Consultation Forum |
| 14 December 2016 to 12 January 2017 | 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 (15 December 2016) |
| 11 January 2017 | Policy Development Group | Opportunity for Members to consider proposals prior to agreement of final budget by Cabinet & Council |
| 7 February 2017 | Cabinet Meeting | Recommendations to Council |
| 23 February 2017 | Council | Approval of Budget |