

Agenda Item No: 9.3 **Report No:** 23/17

Report Title: Housing Revenue Account Budget 2017/2018

Report To: Cabinet **Date:** 8 February 2017

Cabinet Member: Councillor Ron Maskell

Ward(s) Affected: All

Report By: Ian Fitzpatrick, Director of Service Delivery

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Purpose of Report:

This report presents the Housing Revenue Account Budget 2017/2018.

Officers Recommendation(s):

That Cabinet reviews the Housing Revenue Account Budget and approves recommendations 1, 2, 3, 4, 5, 6 and 7.

1. The budgets for 2017/18 (*Appendix 1 of this report*).
2. A reduction in dwelling rents of 1%, effective from 3 April 2017. (*Section 9 of this report*).
3. A reduction of 1% in Affordable Rents, effective from 3 April 2017 (*Section 10 of this report*).
4. An average garage rent increase of 2.2%, effective from 3 April 2017. (*Section 11 of this report*). This is in line with the Business Plan and current Council policy on garage rentals.
5. An increase of 2.2% in Private Sector Leased Property rents, effective from 3 April 2017 (*Section 12 of this report*).
6. Implement revised Service Charges, effective from 3 April 2017 (*Sections 13 to 17 of this report*).
7. The 30-year Housing Business Plan is refreshed.

Reasons for Recommendations

1. To enable the Council to fulfill its legal obligations to produce a balanced Housing Revenue Account for 2017/2018.

Information

2. Introduction

2.1. The national Housing Revenue Account self-financing system allows all income generated to be kept locally and available to fund the maintenance and management of the housing stock, service debt and acquire and provide additional Social Housing.

2.2. Part 4 of the Housing and Planning Act 2016 introduced powers:

- To require councils to consider selling high-value homes and require them to make payments to central government calculated on the assumption that such homes will be sold as they become vacant. Implementation of this proposal, which is still being evaluated by Government, will not take place in 2017/18 as had been expected. It is still not possible to evaluate the financial impact on the Housing Revenue Account with any certainty;
- To require councils, along with housing associations, to charge market or near-market rents to tenants with household incomes above £31,000 a year (£40,000 in London). The Government has now decided not to proceed with this policy in its current form. Councils have the discretion to implement the policy for tenants with income over £60,000;
- To require councils to issue 2 to 5 year fixed term tenancies to nearly all new tenants.

2.3. The budgets have been prepared on the basis of the national Housing Revenue Account Accounting Code of Practice, with management, maintenance and debt financing costs offset by income from rents, service charges and other contributions.

3. Budget Information

3.1. The Housing Revenue Account Budget 2017/2018 reflects the organisational change taking place within the Council, the Government's policy on dwelling rents and the new priorities for capital and maintenance works. The budget does not include a contribution to finance the capital programme, and shows a total estimated balance in hand at year end of £2,836,200.

3.2. A provision has been made for movements in the pay bill in line with the expected national settlement. Salary budgets also allow for contractual

salary increments, employers pension contributions, organisation change and a 2% vacancy rate.

- 3.3.** The budgeted employer's pension contribution rate for 2017/2018 is the same as that proposed by the actuary following the three yearly review of the East Sussex Pension Fund, which was finalised in December 2016.
- 3.4.** Following discussion with East Sussex County Council and the pension fund actuary, it is assumed that the pension cost of former Lewes District Council staff will not change following their transfer to Eastbourne Borough Council on 1 February 2017.
- 3.5.** The 2017/2018 budget has not been reduced by including a savings target to be generated by the Council's Joint Transformation Programme with Eastbourne Borough Council. An appropriate share of the saving generated will pass through to the HRA in 2017/2018 as it is realised and will be reflected in future years' budgets.
- 3.6.** Inflation has been provided to cover known price changes, such as utility and contractual commitments. In addition, the noted items in 3.5 to 3.14 have been provided in the budget.
- 3.7.** The stock condition survey has been completed and the results have been used in compiling the 2017/2018 budget. The results of the survey will be also used to inform a full update of the 30-year Business Plan, which will also reflect the impact of the Government policy to reduce rents by 1% for a period of four years. This will allow expenditure on future major repairs and replacements to be synchronised with available resources.
- 3.8.** The planned and responsive maintenance budget provides for an increase of £97,000. This follows the review of planned, responsive and void works to properties.
- 3.9.** The repairs budget includes £60,000 for professional fees in connection with the procurement of a new repairs contract and the commissioning of Fire Risk Assessments.
- 3.10.** A budget of £48,500 is included for non-recurring professional fees in respect of Leasehold Service Delivery (£19,000); review of sheltered housing (£10,000); review of garage sites (£5,000); Health & Safety statutory compliance (£7,500); and Asset Management & Procurement Strategy (£7,000).
- 3.11.** A review of the contract cleaning service has resulted in additional costs of £30,100, and is included in the budget. The increase is recovered through service charges.
- 3.12.** An improved level of service in the Sheltered Housing alarm call system has resulted in a budget increase of £23,000. The increase is recovered through service charges.

3.13. The Council's programme to replace old electric storage heating with sustainable air source heat pump systems attracts Renewable Heat Incentive payments. Additional income of £30,000 is anticipated in 2017/2018, which has been included in the budget.

3.14. The Council's new dwellings construction programme, on former garage sites, is progressing with the first units nearing completion and occupation. The budget provides for a phased rental stream commencing from February 2017.

Budget Presentation

4. Budget Layout

4.1. The budget layout complies with national accounting requirements and includes explanatory notes within the body of the budgets. An explanation of items included within the expenditure headings is given below.

- a) Employees – Includes the salary costs of the Council's workforce directly providing the service. This heading includes employee related insurance premiums.
- b) Premises – Includes the costs associated with buildings such as repairs and maintenance, upkeep of grounds, energy, and water charges.
- c) Transport – Running costs of council owned vehicles together with employee car allowances and use of public transport.
- d) Supplies and Services – Day to day running costs such as printing, stationery, telephones, external professional services and administrative overheads in respect of employees who directly provide the service.
- e) Agency and Contracted Services – Where a contractor wholly undertakes the provision of a service, the costs will be shown against this heading.
- f) Support Services – This heading includes costs such as accountancy, legal, and IT services (e.g. hardware, software and operational systems).
- g) The Housing Revenue Account Budget is set out at Appendix 1.

Housing Revenue Account Debt

5. Housing Debt and Debt Ceiling

5.1. The Government continues to maintain control of borrowing for local authority housing. The Council's successful bid to Government for additional borrowing of £2.317m, to finance the construction of thirty new

dwellings, increased the Housing Revenue Account 'Debt Cap' to £75.248m.

- 5.2.** The Council's Housing Revenue Account borrowing is now capped at £75.248m. Actual borrowing at 1 April 2017 is projected to be £65.682m, leaving borrowing headroom of £9.566m, as shown in Table 1.
- 5.3.** The HRA Capital Financing Requirement is met by a combination of loans, as summarised in Table 1. This assumes that no premature loan repayments are made before 31 March 2017.
- 5.4.** The Public Works Loan Board (PWLB) loan interest rate is the average interest rate payable on a combination of individual loans with varying maturity dates. A fixed rate of interest applies to the Barclays Bank loan. The internal borrowing (from the General Fund) interest rate is equivalent to the indicative PWLB one year rate. The approach that is taken on internal borrowing is specified within the Council's Treasury Management Strategy.

TABLE 1

	Loans 1 April 2017 £	Interest Rate %	Interest Amount £
Public Works Loan Board	51,673,000	2.9192	1,508,400
Barclays Bank	5,000,000	4.5000	225,000
Internal Borrowing from General Fund	9,009,485	1.3300	121,700
Total Debt	65,682,485	2.8838	1,855,100
Increase Approved by DCLG (New Dwellings Construction)	283,800		
Debt Headroom	9,281,805		
Debt Allocation & Debt Cap	75,248,090		

The Budget 2016/2017

6. The Major Repairs Reserve

- 6.1.** It is essential that there are sufficient resources set aside within the Housing Revenue Account for the long term maintenance and renewal of the housing stock. This is achieved by setting aside in the Major Repairs Reserve the amount charged to the Housing Revenue Account as depreciation each year.
- 6.2.** Authorities are expected to use the Major Repairs Reserve in line with the priorities and phasing set out in the Business Plan and maintain the decent homes standard, rather than fund the acquisition of new assets.
- 6.3.** The projected movements on the Major Repairs Reserve are shown in TABLE 2 below. The amounts shown for 2016/2017 differ from the original budget having been updated to take into account the revised Capital

Programme and depreciation calculated on the actual value of housing stock components at 1 April 2016.

TABLE 2

	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£
Balance 1 April	1,112,431	2,157,721	1,841,951	1,585,251	1,690,251
Depreciation	4,938,810	5,148,000	5,140,800	5,132,500	5,121,500
Capital Programme	(3,893,520)	(5,463,770)	(5,397,500)	(5,027,500)	(3,616,000)
Balance 31 March	2,157,721	1,841,951	1,585,251	1,690,251	3,195,751

6.4. Cabinet will consider the use of the Major Repairs Reserve and the level of balance required for the immediate future as part of its capital programme recommendations. Tenant representatives are consulted on the use of the Reserve.

7. Working Balance

7.1. The HRA Business Plan has a planned general Working Balance of £1.5 million. This position allows for a buffer against unforeseen events with an impact on expenditure or income in the year.

7.2. In addition to the General element of the Working Balance, amounts are held to fund potential costs in future years. TABLE 3 draws together all the earmarked components of the HRA working balance and shows the projected Working Balance at 31 March 2017.

7.3. The Special Projects element of the working balance is available to fund the HRA share of the Joint Transformation Programme.

TABLE 3

Working Balance Allocation	Actual 2015/16 £	Original 2016/17 £	Projected 2016/17 £	Budget 2017/18 £
General Working Balance	1,042,765	1,500,000	1,500,000	1,500,000
Special Projects	1,408,000	683,100	1,061,200	1,061,200
Self-Insurance	275,000	275,000	275,000	275,000
Total Working Balance	2,725,765	2,458,100	2,836,200	2,836,200

8. The Revenue Budget 2017/2018

8.1 Income in 2017/2018 is planned to exceed expenditure by £806,600, which will be used to repay internal borrowing, reducing the surplus for the year to zero. The major variations for 2017/2018 are analysed below in TABLE 4.

TABLE 4

Budget Variations	Budget 2017/2018 £'000	Budget Variations	Budget 2017/2018 £'000
Original Budget Surplus 2016/14	(519)	Supplies and Services	149
Rental Income (New Dwellings)	(203)	Agency Services	2
Rental Income (1% Ren Reduction)	151	Support Services	(63)
Rental Income (RTB Sales)	104	Rent & Council Tax/Rates	25
Rental Income (Other)	15	Provision for Bad Debts	18
East Sussex County Council Grant	12	Depreciation of Fixed Assets	219
Grounds Maintenance Contribution	7	Debt Management Charges	9
Solar/Renewable Heat Tariffs	(25)	Interest on Borrowing	(2)
Service Charges	(24)	Repayment of Internal Borrowing	20
Leaseholder Charges	(23)	Net Variation	519
Other Sundry Charges	(3)	Projected Net Deficit/Surplus	-
Employees	27	Estimated Balance 1 April 2016	(2,836)
Premises and Property	93	Estimated Balance 31 March 2017	(2,836)
Transportation	11		

9. The Rent Decisions

- 9.1.** The Welfare Reform and Work Act 2016 required local authority and housing association rents to be reduced by 1% per year for 4 years, starting in April 2016.
- 9.2.** The budget has been prepared on the basis of an overall 1% reduction in dwelling rents from 3 April 2017.
- 9.3.** Projected Rents (Based on December 2016 Data) are shown in TABLES 5 & 6.

TABLE 5

Dwelling Type	Average Weekly Rent	
	2016/17 £	2017/18 £
Bedsits	61.04	60.43
1 Bedroom Flat	73.05	72.32
2 Bedroom Flat	82.40	81.58
3 Bedroom Flat	87.78	86.90
4 Bedroom Flat	98.50	97.52
1 Bedroom House	82.28	81.46
2 Bedroom House	95.41	94.46
3 Bedroom House	106.25	105.18
4 Bedroom House	114.35	113.21
5 Bedroom House	118.12	116.94
6 Bedroom House	133.73	132.39

TABLE 6

Dwelling Type	Average Weekly Rent	
	2016/17 £	2017/18 £
All Bedsits	61.04	60.43
All Flats	76.02	75.26
All Houses	99.95	98.95
All Dwellings	89.41	88.52

10. Affordable Rents

- 10.1.** The Council has two properties for which the rents are set as Affordable Rents, which are based on 80% of the monthly Market Rent. The agreements under which these properties were acquired, provide that the rents will increase in April each year by the Retail Price Index (September RPI (2.2%) plus 0.5%).
- 10.2.** The rents are subject to the Government's 1% reduction policy referred to in paragraph 9.1.

11. Garage Rents

- 11.1.** Garage Rents are not within the scope of formula rents. It is left to each Council to formulate its own policy on garage rents.
- 11.2.** The Council has undertaken a substantial programme of refurbishment works to council garages. In approving the refurbishment programme, Cabinet agreed that garage rents should reflect the local garage rental market.
- 11.3.** A market review of garage rents is undertaken every five years and in November 2015, District Valuer Services undertook a review of market rents. The new rents were implemented from April 2016. Following a market review, garage rentals are uprated each subsequent year by September RPI (2.2%).
- 11.4.** TABLE 7 sets out the weekly garage rentals.

TABLE 7

	Rents 2016/17	Rents 2017/18	Rent Increase	
	£	£	£	%
Lowest	11.63	11.89	0.26	2.2
Average	16.54	16.91	0.37	2.2
Highest	17.25	17.63	0.38	2.2

12. Private Sector Leased Property Rentals

- 12.1.** The Council's private sector leasing (PSL) scheme falls outside the scope of formula rents and is accounted for in the General Fund. The properties are leased from owners/landlords for a three-year period and sub-let to homeless families. There are currently eighteen properties within the scheme.
- 12.2.** The annual rent increase, if any, to owners is dealt with in the head lease.

- 12.3.** The Council's policy is to increase PSL rents each April by the September RPI inflation factor, which is 2.2% for 2017/2018.

The Service Charges Decisions

13. The Communal Service Charge

- 13.1.** The Communal Service Charge was recently reviewed with the aim of aligning the charges for tenants with those of leaseholders; reflecting the organisational change within the Council and the new contracts for grounds maintenance and communal cleaning.
- 13.2.** The charge recovers the cost of communal services provided to general needs flats. The services include grounds maintenance, maintenance of lifts, caretaking and cleaning, door entry and alarm systems, TV aerials, laundry services and communal lighting.
- 13.3.** The revised charges were implemented from April 2016, with all reductions implemented and increases capped at £3 per week. This approach has been adopted for the 2017/2018 charges.
- 13.4.** The communal element of the service charge is eligible for housing benefit.
- 13.5.** The average service charge is £5.03, with the lowest at £0.66 and the highest at £12.59. The position before the £3 cap is applied is shown in Table 8.

TABLE 8

	Properties	Minimum £	Average £	Maximum £
Reductions	568	0.01	0.92	3.35
Increases up to £3	420	0.01	1.09	2.87
Increases over £3	176	3.01	4.58	11.38
Total	1,164			

14. The Homeless Accommodation Service Charge

- 14.1.** The service charge relates to the facilities provided at homelessness properties held within the Housing Revenue Account.
- 14.2.** The Homeless Accommodation Service Charge for 2017/2018 has been reviewed, in accordance with agreed Council practice, to reflect the proposed budget. The communal element of the service charge is eligible for housing benefit.

15. The Supported Housing Service Charge

- 15.1.** The review of the sheltered housing service and the organisational change within the Council is reflected in the service charge.

- 15.2.** The service charge has been updated to reflect the 2017/2018 budget to achieve full cost recovery.
- 15.3.** The communal element of the service charge is eligible for housing benefit.

16. The Support Scheme Charge

- 16.1.** Following the withdrawal of East Sussex County Council from the Supporting People scheme, the Council introduced, from May 2016, a redesigned Support Scheme for tenants in sheltered accommodation.
- 16.2.** The charge for 2016/17 was £3.36 per week. The charge has now been reviewed to reflect the first year of operation of the redesigned scheme. The charge achieves full cost recovery and will increase to £4.14 per week from 3 April 2017.

17. Other Service Charges

- 17.1.** All other service charges have been updated to reflect the 2017/2018 budget and achieve full cost recovery. This charge includes sundry charges for digital television reception, residual lifeline services and domestic cookers provided at certain properties.

The Capital Programme

18. The capital programme is restricted to the amount of funding available from four major sources.

- *Prudential Borrowing.* Any borrowing to fund additions or improvements to the stock must be affordable to the HRA. The borrowing must not take the total debt above the cap of £75,248,090 (paragraph 5.4 - TABLE 1).
- *The Major Repairs Reserve* (paragraph 6.3 - TABLE 2).
- *Capital Receipts.* As an indication, in the first six months of 2016/2017, the proceeds from the sale of nine dwellings amounted to £1,317,870, which have been allocated, in accordance with statutory requirements, for four purposes.
 - (i) To finance Non-HRA capital expenditure (£91,060);
 - (ii) To repay HRA borrowing, in accordance with the self-financing settlement (£261,870);
 - (iii) To pay the Government its prescribed share, (£204,010);
 - (iv) To fund new affordable housing, in accordance with the Government '1-4-1 retained receipts' scheme introduced in April 2012 (£760,930).

19. Retained receipts from Council House Right to Buy Sales must be spent on new affordable housing, but can only be used to fund a maximum of 30% of the cost of the new homes within a rolling 3-year period. Any unused receipts must be returned to the Government with interest. The retention scheme was implemented

on 1 April 2012 and since that date receipts with a total value of £2.954m have been initially retained requiring spending of £9.847m on new affordable homes. Of this amount, £2.966m has been spent and a further £2.520m is committed to the construction contract for 30 new dwellings on former garage sites.

20. The accumulative amount of capital receipts retained since April 2012 to repay HRA borrowing is £1.324m. No repayments have been made to date and there is no requirement to do so. The receipts can be used to finance capital expenditure and will be available towards the high value homes levy when it is introduced.

21. Capital Requirements for the next three years are shown in TABLE 10, which is based on the results of the new stock condition survey.

21.1. TABLE 9 shows those items within the approved 2016/2017 Capital Programme relating to those services covered by the Housing Revenue Account.

TABLE 9

Line No	HRA Investment Capital Programme	Approved Programme 2016/17	Approved Programme Variations	Revised Programme 2016/17
		£	£	£
1	New Dwellings	4,240,400	(98,800)	4,141,600
2	Improvements to Existing Stock	4,258,770	-	4,258,770
3	<i>Other Works</i>			
4	Adaptations for Disabled Tenants	415,000	-	415,000
5	Community TV Aerials	35,000	-	35,000
6	Recreation & Play Areas	62,590	-	62,590
7	Rooms in Roof Conversions	315,000	-	315,000
8	Lift Replacements	120,000	-	120,000
9	Door Entry Systems	20,000	-	20,000
10	Roads, Paths & Engineering	200,000	-	200,000
11	Environmental Improvements	50,000	-	50,000
12		9,716,760	(98,800)	9,617,960
13	<i>Funded by:</i>			
14	Borrowing	2,657,170	(98,800)	2,558,370
15	Capital Receipts	1,581,980	-	1,581,980
16	Major Repairs Reserve	5,463,770	-	5,463,770
17	Revenue Contributions	1,250	-	1,250
18	Other Contributions	12,590	-	12,590
		9,716,760	(98,800)	9,617,960

21.2. Capital schemes in respect of private sector housing or housing association schemes are within the General Fund Housing Investment Capital Programme.

21.3. This approach is adopted because some of the resources which are available to the Council to fund the Capital Programme can be used on either the General Fund or Housing Revenue Account, for example capital receipts, whereas other resources can only be used for HRA

purposes. Cabinet agrees the split of the shared resources, according to its overall priorities for capital expenditure.

- 21.4.** The proposed programme for the three-year period 2017/2018 to 2019/2020 is shown in TABLE 10 below. It assumes the Council undertakes prudential borrowing of £0.654m and utilises £14.041m from the Major Repairs Reserve.

The proposed programme includes £0.099m for residual payments under the current contract to construct new dwellings on former garage sites, £0.555m for the potential buy-back of dwellings; £12.046m for improvements to existing stock; and £1.995m in respect of other works outside of the stock condition survey.

TABLE 10

Ref	HRA Investment Capital Programme	2017/18 £	2018/19 £	2019/20 £
1	New Dwellings	283,800	185,000	185,000
2	Improvements to Existing Stock based on the Stock Condition Survey	4,732,500	4,362,500	2,951,000
3	<i>Other Works not included in Survey</i>			
4	Adaptations for Disabled Tenants	415,000	415,000	415,000
5	Community TV Aerials	35,000	35,000	35,000
6	Recreation & Play Areas	50,000	50,000	50,000
7	Rooms in Roof Conversions	165,000	165,000	165,000
8	Total	5,681,300	5,212,500	3,801,000
9	<i>Funded by:</i>			
10	Borrowing	283,800	185,000	185,000
11	Major Repairs Reserve	5,397,500	5,027,500	3,616,000
12	Total	5,681,300	5,212,500	3,801,000

22. Tenant Consultation

- 22.1.** An integral part of the Budget process is a constructive dialogue with The Tenants of Lewes District Group (TOLD). Officers met with TOLD to review the draft Revenue Budget and Capital Programme on 23 January 2017.

Financial Implications

- 23.** These are included in the main body of the report.

Risk Management Implications

- 24.** I have completed a risk assessment in accordance with the Council's Risk Management methodology and the following risks and mitigating factors have been identified.

- 24.1.** The Revenue Budget has been compiled in accordance with the approved budget preparation guidelines, mitigating the risk that the budgets do not reflect likely expenditure needs or income levels.

Equality Screening

- 25.** This is a budget report for which detailed Equality Analysis is not required to be undertaken. The equality implications of individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports and it is not considered necessary to undertake an overarching analysis of the budget proposals as a whole.

Legal Implications

- 26.** None arising from this Report

Background Papers

None

Appendices:

Appendix 1 – Housing Revenue Account Budget 2017/2018