

**Agenda Item No:** 9.1

**Report Title:** Housing Revenue Account Budget 2018/2019

**Report To:** Cabinet **Date:** 5 February 2018

**Cabinet Member:** Councillor Ron Maskell

**Ward(s) Affected:** All

**Report By:** Ian Fitzpatrick, Director of Service Delivery

**Contact Officer(s):**

**Name(s):** Stephen Osborne

**Post Title(s):** Principal Accountant

**E-mail(s):** [stephen.osborne@lewes-eastbourne.gov.uk](mailto:stephen.osborne@lewes-eastbourne.gov.uk)

**Tel No(s):** 01273 085286

---

**Purpose of Report:**

This report presents the Housing Revenue Account Budget 2018/2019.

**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 2018/2019 (*Appendix 1 of this report*).
2. A reduction in dwelling rents of 1%, effective from 2 April 2018. (*Section 7 of this report*).
3. A reduction of 1% in Affordable Rents, effective from 2 April 2018 (*Section 8 of this report*).
4. An average garage rent increase of 4.1%, effective from 2 April 2018. (*Section 9 of this report*). This is in line with the Business Plan and current Council policy on garage rentals.
5. An increase of 4.1% in Private Sector Leased Property rents, effective from 2 April 2018 (*Section 10 of this report*).
6. Implement revised Service Charges, effective from 2 April 2018 (*Sections 11 to 15 of this report*).
7. The 30-year Housing Business Plan is updated.

## **Reasons for Recommendations**

1. To enable the Council to fulfill its legal obligations to produce a balanced Housing Revenue Account for 2018/2019.

## **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.** The Government has yet to clarify its intentions on two proposed measures:

- The levy on local housing authorities based on the sale potential of 'high value asset' (HVA) properties. Although power to introduce a HVA Levy to fund the extension of a Right to Buy to housing association tenants was introduced in the Housing and Planning Act 2016, the necessary Regulations have not yet been laid before Parliament. The previous Housing Minister Gavin Barwell announced in November 2016 that councils would not be expected to pay the HVA Levy until after April 2018 and it appears this will continue to be the case until at least April 2019. At the Autumn Budget the Chancellor announced that the Government would fund an extended pilot of the Right to Buy for housing association tenants in the West Midlands area, however it would appear the Government is not prepared to abandon the idea of a HVA Levy at some stage in the future.
- The lifting of HRA borrowing caps. As part of the Autumn budget, the Government announced a selected lifting of borrowing caps for councils in areas of high affordability pressure to enable them to build more homes. Councils will be invited to bid for increases in their caps from 2019/2020. It is unlikely that this Council will qualify for an increase in its borrowing cap.

**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. The Budget 2018/19**

**3.1.** The Housing Revenue Account Budget 2018/2019, set out at Appendix 1, reflects the organisational change taking place within the Council, the Government's policy on dwelling rents and the review of 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 £2,945,000.

- 3.2.** A provision has been made for movements in the pay bill in line with the expected national settlement of 2%. Salary budgets also allow for contractual salary increments, employers pension contributions, and organisational change.
- 3.3.** The budgeted employer's pension contribution rate for 2018/2019 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.** 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.
- 3.5.** The budget includes targets for savings to be generated by the Council's Joint Transformation Programme (JTP) with Eastbourne Borough Council. The savings will comprise reductions in the cost of employees, overheads, central support services and the allocation of corporate and democratic costs. At this stage the 2018/2019 expenditure budgets for these costs have been retained at the same amounts included in 2017/2018, with the savings targets incorporated as global amounts. Service Budgets will be reduced, and the savings target released, when the organisational changes have been embedded.
- 3.6.** The new repairs contract, starting in February 2018, is expected to generate reductions of £140k. It is anticipated the closure of the Council's Housing Maintenance Unit will produce a further reduction of £55k.
- 3.7.** The revenue cost of repairs to vacant properties will be reduced through capitalisation of component renewals for kitchens, bathrooms, electrical rewires, windows, doors and heating systems. The value of component renewals on void properties is expected to be £229k or 35% of the anticipated spend.
- 3.8.** It is expected there will be a reduction of £31k in the cost of mechanical and electrical service contracts.
- 3.9.** The total reduction of £455k (Items 3.5 to 3.8) has been included in the 2018/2019 revenue repairs budget.
- 3.10.** Following the renewal and replacement of lifts and the new service contract, there is a reduction of £30k included in the 2018/2019 budget.
- 3.11.** Following the completion of major upgrade projects, a reduction of £35k in fees for professional services has been included in the 2018/2019 budget.

- 3.12.** The stock condition survey has been completed and the results have been used to inform the 2018/2019 budget. The results of the survey will be also used to update 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.
- 3.13.** The Council's new dwellings construction programme, on former garage sites, is complete with the units occupied. The budget provides for the phased rental stream.
- 3.14.** Income in 2018/2019 is planned to exceed expenditure by £1,146,300, which will be used to repay internal borrowing, reducing the surplus for the year to zero. The major variations for 2018/2019 are summarised below in Table 1.

**TABLE 1**

Budget Variations	Budget 2018/2019 £'000	Budget Variations	Budget 2018/2019 £'000
Original Budget Surplus 2017/18	<b>0</b>	Rent & Council Tax/Rates	(4)
Rental Income (New Dwellings)	39	Provision for Bad Debts	(18)
Rental Income (1% Ren Reduction)	147	Depreciation of Fixed Assets	312
Rental Income (RTB Sales)	75	Interest on Borrowing	11
Rental Income (Other)	6	Investment Income	(14)
Rental Income (Garages)	(15)	Repayment of Internal Borrowing	339
Grounds Maintenance Contribution	(46)	Joint Transformation Programme	(300)
Solar/Renewable Heat Tariffs	(10)	Net Variation	<b>-</b>
Service Charges	29	Projected Net Deficit/Surplus	<b>-</b>
Leaseholder Charges	16	Estimated Balance 1 April 2017	<b>(2,945)</b>
Premises and Property	(560)	Estimated Balance 31 March 2018	<b>(2,945)</b>
Transportation	5		
Supplies and Services	(7)		
Support Services	(5)		

## Housing Revenue Account Debt

### 4. Housing Debt and Debt Ceiling

- 4.1.** The Government continues to maintain control of borrowing for local authority housing.
- 4.2.** The Council's Housing Revenue Account borrowing is capped at £75.248m. Actual borrowing at 1 April 2018 is projected to be £65.405m, leaving borrowing headroom of £9.843m, as shown in Table 2.
- 4.3.** The HRA Capital Financing Requirement is met by a combination of loans, as summarised in Table 2.

- 4.4.** 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 2**

	<b>Loans 1 April 2018</b>	<b>Interest Rate</b>	<b>Interest Amount</b>
	<b>£</b>	<b>%</b>	<b>£</b>
Public Works Loan Board	51,673,000	2.8974	1,497,171
Barclays Bank	5,000,000	4.5000	225,000
Internal Borrowing from General Fund	8,732,915	1.4000	143,542
<b>Total Debt</b>	<b>65,405,915</b>	<b>2.8091</b>	<b>1,865,713</b>
Debt Headroom	9,842,175		
<b>Debt Allocation &amp; Debt Cap</b>	<b>75,248,090</b>		

## **MAJOR REPAIRS RESERVE AND WORKING BALANCE**

### **5. The Major Repairs Reserve**

- 5.1.** 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. The depreciation charge is based on the expected life and cost of replacing all key components of a property e.g. kitchens, bathrooms, windows and roofs.
- 5.2.** 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 to fund the acquisition of new assets.
- 5.3.** The projected movements on the Major Repairs Reserve are shown in Table 3 below. The amounts shown for 2017/2018 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 2017.

TABLE 3

	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£
Balance 1 April	2,157,721	4,933,646	3,586,416	3,777,976	4,282,976
Depreciation	5,159,712	5,424,000	5,485,000	5,485,000	5,485,000
Capital Programme	(2,383,787)	(6,771,230)	(5,293,440)	(4,980,000)	(4,980,000)
Balance 31 March	<b>4,933,646</b>	<b>3,586,416</b>	<b>3,777,976</b>	<b>4,282,976</b>	<b>4,787,976</b>

- 5.4.** 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.

## 6. Working Balance

- 6.1.** 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.
- 6.2.** In addition to the General element of the Working Balance, amounts are held to fund potential costs in future years. Table 4 draws together all the earmarked components of the HRA working balance and shows the projected Working Balance at 31 March 2018.
- 6.3.** The Special Projects element of the working balance is available to fund the HRA share of investment and one-off costs associated with the Joint Transformation Programme.

TABLE 4

Working Balance Allocation	Actual 2016/17 £	Original 2017/18 £	Projected 2017/18 £	Budget 2018/19 £
General Working Balance	1,584,747	1,500,000	1,500,000	1,500,000
Special Projects	1,012,000	1,061,200	1,170,000	1,170,000
Self-Insurance	275,000	275,000	275,000	275,000
<b>Total Working Balance</b>	<b>2,871,747</b>	<b>2,836,200</b>	<b>2,945,000</b>	<b>2,945,000</b>

## THE RENT DECISIONS

### 7. Social Rents

- 7.1.** 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.
- 7.2.** The budget has been prepared on the basis of an overall 1% reduction in dwelling rents from 2 April 2018.

**7.3.** Projected Rents (Based on December 2017 Data) are shown in Tables 5 & 6.

**7.4.** All new tenancies are let at the calculated target rent for the property.

**TABLE 5**

	Dwelling Type	Average Weekly Rent	
		2017/18 £	2018/19 £
	Bedsits	60.43	59.88
1	Bedroom Flat	72.32	71.47
2	Bedroom Flat	81.58	80.77
3	Bedroom Flat	86.90	85.79
4	Bedroom Flat	97.52	96.66
1	Bedroom House	81.46	80.85
2	Bedroom House	94.46	93.85
3	Bedroom House	105.18	104.32
4	Bedroom House	113.21	112.52
5	Bedroom House	116.94	115.77
6	Bedroom House	132.39	131.07

**TABLE 6**

Dwelling Type	Average Weekly Rent	
	2017/18 £	2018/19 £
All Bedsits	60.43	59.88
All Flats	75.26	75.98
All Houses	98.95	98.18
All Dwellings	<b>88.52</b>	<b>87.75</b>

## **8. Affordable Rents**

**8.1.** The Council has twenty four properties let at Affordable Rent. The average rent for these properties is shown in Table 7. The properties have been bought or constructed since 2013. The higher rent levels than standard ensure that they are self-financing. The rents are subject to the Government's 1% reduction policy referred to in paragraph 7.1.

**TABLE 7**

	Dwelling Type	2018/19 £
1	Bedroom Flat	115.88
2	Bedroom Flat	146.00
2	Bedroom House	145.50

## **9. Garage Rents**

**9.1.** Garage Rents are not within the scope of Government control. It is left to each Council to formulate their policy on garage rents.

**9.2.** 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 (4.1%).

**9.3.** Table 8 sets out the weekly garage rentals.

**TABLE 8**

	<b>Rents 2017/18</b>	<b>Rents 2018/19</b>	<b>Rent Increase</b>	
	<b>£</b>	<b>£</b>	<b>£</b>	<b>%</b>
Lowest	11.89	12.37	0.48	4.1
Average	16.91	17.60	0.69	4.1
Highest	17.63	18.35	0.72	4.1

## **10. Private Sector Leased Property Rentals**

- 10.1.** The Council's private sector leasing (PSL) scheme falls outside the scope of Government control 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 twenty four properties within the scheme.
- 10.2.** The annual rent increase, if any, to owners is dealt with in the head lease.
- 10.3.** The Council's policy is to increase PSL rents each April by the September RPI inflation factor, 4.1% for 2018/2019 (2.2% 2017/2018).

## **The Service Charges Decisions**

### **11. The Communal Service Charge**

- 11.1.** 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.
- 11.2.** The charge recovers the cost of communal services provided to non-sheltered flats. The services provided include grounds maintenance, maintenance of lifts, caretaking and cleaning, door entry & alarm systems, TV aerials, laundry services and communal lighting.
- 11.3.** 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 2018/2019 charges.
- 11.4.** The communal element of the service charge is eligible for housing benefit and Universal Credit.
- 11.5.** The average service charge is £5.28, with the lowest at £0.16 and the highest at £18.45. The position before the £3 cap is applied is shown in Table 9.



**TABLE 9**

	Properties	Minimum £	Average £	Maximum £
Reductions	409	0.01	1.13	8.98
Increases up to £3	646	0.01	0.85	3.00
Increases over £3	51	3.08	3.89	8.49
Total	<b>1,106</b>			

## **12. The Homeless Accommodation Service Charge**

**12.1.** The service charge relates to the services provided at homelessness properties held within the Housing Revenue Account.

**12.2.** The Homeless Accommodation Service Charge for 2018/2019 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 and Universal Credit.

## **13. The Supported Housing Service Charge**

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

**13.2.** The service charge has been updated to reflect the 2018/2019 budget to achieve full cost recovery.

**13.3.** The communal element of the service charge is eligible for housing benefit.

## **14. The Support Scheme Charge**

**14.1.** 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.

**14.2.** The charge for 2017/2018 was £3.09 per week. The charge has now been reviewed to reflect experience of the redesigned scheme. The charge achieves full cost recovery and will reduce to £2.89 per week in 2018/2019.

## **15. Other Service Charges**

**15.1.** All other service charges have been updated to reflect the 2018/2019 budget and achieve full cost recovery. This includes charges for digital television reception, residual lifeline services and domestic cookers provided at certain properties.

## The Capital Programme

**16.** 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 4.2 – Table 2).
- *The Major Repairs Reserve* (paragraph 5.3 – Table 3).
- *Capital Receipts.* As an indication, in the first six months of 2017/2018, the proceeds from the sale of eight dwellings amounted to £940,750, which have been allocated, in accordance with statutory requirements, for four purposes.
  - (i) To finance Non-HRA capital expenditure (£124,190);
  - (ii) To repay HRA borrowing, in accordance with the self-financing settlement (£120,235);
  - (iii) To pay the Government its prescribed share, (£303,244);
  - (iv) To fund new affordable housing, in accordance with the Government ‘1-4-1 retained receipts’ scheme introduced in April 2012 (£393,081).

**17.** 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 £3.449m have been initially retained requiring spending of £11.496m on new affordable homes. Of this amount, £5.712m has been spent and a further £0.325m committed to the construction contract for 30 new dwellings on former garage sites, and £1.200m on the Ashington Gardens project.

**18.** The accumulative amount of capital receipts retained since April 2012 to repay HRA borrowing is £1.463m. 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.

**19.** Capital Requirements for the next three years are shown in Table 11, which is based on the results of the recent stock condition survey.

**19.1.** Table 10 shows the approved 2017/2018 Capital Programme relating to those services covered by the Housing Revenue Account. The proposed programme variations are shown column (e).

**TABLE 10**

(a) Line No	(b) HRA Investment Capital Programme	(c) Approved Programme 2017/18	(d) Approved Programme Variations	(e) Proposed Programme Variations	(f) Revised Programme 2017/18
		£	£	£	£
1	New Dwellings	958,800	901,200	-	1,860,000
2	Saxonbury Redevelopment	-	1,500,000	-	1,500,000
3	Improvements to Existing Stock	6,364,920	(352,930)	(1,643,710)	4,368,280
4	<i>Other Works</i>				
5	Adaptations for Disabled Tenants	415,000	(15,000)	15,000	415,000
6	Community TV Aerials	69,560	-	-	69,560
7	Recreation & Play Areas	62,960	-	-	62,960
8	Rooms in Roof Conversions	366,940	-	-	366,940
9	Sheltered Common Room Conversions	50,000	-	-	50,000
10	Lift Replacements	120,000	685,630	(32,540)	773,090
11	Sheltered Schemes Communal Heating	768,130	(317,700)	-	450,430
12	Door Entry Systems	14,970	-	-	14,970
13	Roads, Paths & Engineering	200,000	-	-	200,000
14	Environmental Improvements	50,000	-	-	50,000
15		<b>9,441,280</b>	<b>2,401,200</b>	<b>(1,661,250)</b>	<b>10,181,230</b>
16	<i>Funded by:</i>				
17	Borrowing	679,280	1,920,720	-	2,600,000
18	Capital Receipts	682,450	(72,450)	-	610,000
19	Major Repairs Reserve	8,079,550	352,930	(1,661,250)	6,771,230
20	Revenue Contributions	-	200,000	-	200,000
		<b>9,441,280</b>	<b>2,401,200</b>	<b>(1,661,250)</b>	<b>10,181,230</b>

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

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.

The proposed programme for the three-year period 2018/2019 to 2020/2021 is shown in Table 11 below. It assumes the Council undertakes prudential borrowing of £0.600m and utilises £15.253m from the Major Repairs Reserve.

The proposed programme includes £0.600m for the potential buy-back of dwellings; £13.052m for improvements to existing stock; and £2.201m in respect of other works outside of the stock condition survey.

**19.3** In January 2018, Cabinet agreed to progress a programme for a second phase of new housing developments on garage sites and other HRA sites. A further report will be made to Cabinet for approval to proceed

with the finalised programme, and an allocation of resources in the capital programme will be made at that time.

**TABLE 11**

(a)	(b)	(c)	(d)	(e)
Ref	HRA Investment Capital Programme	2018/19 £	2019/20 £	2020/21 £
1	New Dwellings	200,000	200,000	200,000
2	Improvements to Existing Stock	4,351,530	4,350,000	4,350,000
3	<i>Other Works not included in Survey</i>			
4	Adaptations for Disabled Tenants	415,000	415,000	415,000
5	Lift Replacements	311,910	-	-
6	Recreation & Play Areas	50,000	50,000	50,000
7	Rooms in Roof Conversions	165,000	165,000	165,000
8	<b>Total</b>	<b>5,493,440</b>	<b>5,180,000</b>	<b>5,180,000</b>
9	<i>Funded by:</i>			
10	Borrowing	200,000	200,000	200,000
11	Major Repairs Reserve	5,293,440	4,980,000	4,980,000
12	<b>Total</b>	<b>5,493,440</b>	<b>5,180,000</b>	<b>5,180,000</b>

## 20. Tenant Consultation

**20.1.** An integral part of the Budget process is a constructive dialogue with The Tenants of Lewes District Group (TOLD). Officers will meet with TOLD to review the Revenue Budget and Capital Programme.

## Financial Implications

**21.** These are included in the main body of the report.

## Risk Management Implications

**22.** I have completed a risk assessment in accordance with the Council's Risk Management methodology. 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

**23.** There are no direct equality implications arising from this report which proposes no changes to current policies or service plans. The recommended 1% reduction in rents will have a positive impact on all tenants. Changes to service charges are consistent with the principle of full recovery of the cost of service delivery— changes to service provision are subject to specific Equality Impact Assessments as they arise.

## **Legal Implications**

- 24.** Local housing authorities are required by Section 74 of the Local Government and Housing Act 1989 to keep a Housing Revenue Account unless the Secretary of State has consented to their not doing so. The account must show credits (income) and debits (expenditure) arising from the authorities' activities as landlord. The HRA identifies the major elements of housing revenue expenditure such as maintenance, administration and contributions to capital costs, and how they are funded by rents and other income.
- 25.** Section 76 of the 1989 Act states that budgets must be set for the HRA on an annual basis in January or February before the start of the financial year. A local authority may not budget for an overall deficit on the HRA and all reasonable steps must be taken to avoid a deficit.
- 26.** Section 24 of the Housing Act 1985 gives local authorities the power to make reasonable charges for the tenancy or occupation of dwellings. Rent setting must be seen in the context of the statutory duty to set a balanced HRA budget.
- 27.** The Welfare Reform and Work Act 2016 set the rent setting policy whereby social rents in England are to be reduced by 1% each year for four years starting in 2016/2017.

## **Background Papers**

None

## **Appendices:**

Appendix 1 – Housing Revenue Account Budget 2018/2019