

REPORT TO: SCRUTINY COMMITTEE - PEOPLE
DATE OF MEETING: 5 January 2017
REPORT OF: Assistant Director Finance
TITLE: Housing Revenue Account Estimates 2017-18

Is this a Key Decision?

Yes

Is this an Executive or Council Function?

Council

1. What is the report about?

This report sets out the proposed revenue and capital estimates for 2017-18 in respect of the Housing Revenue Account (HRA) and Council Own Build Sites.

2. Recommendations:

That Members of Scrutiny Committee – People support the estimates for 2017-18 and recommends their approval at the Special Meeting of the Council on 21 February 2017.

3. Reasons for the recommendation:

The HRA is a record of income and expenditure relating to an authority's own housing stock. Local housing authorities have a statutory duty to keep an HRA in accordance with proper accounting practices, to set an annual budget and to review the account throughout the year.

4. What are the resource implications including non financial resources

The financial resources required to deliver both housing services to Council tenants and to invest in new and existing housing stock during 2017-18 are set out in the body of this report. The budgets have been set within the confines of implementing the second year of social housing rent cuts, in accordance with the Welfare Reform and Work Act 2016. This represents a significant reduction in financial resources.

5. Section 151 Officer comments:

This report has been prepared on behalf of the Section 151 Officer to set out the revenue and capital estimates for 2017-18 in respect of the Housing Revenue Account and Council Own Build Sites.

6. What are the legal aspects?

The Local Government Act 2003 places a duty on authorities to set robust estimates, maintain adequate reserves and to monitor the budgets and this applies equally to the HRA as to the General Fund.

The Housing Revenue Account is also framed by the Local Government and Housing Act 1989. This Act created the ring-fence and the structure within which the HRA operates and covers the detailed operation of the HRA, including the credits (income) and debits (expenditure) which make up the account.

7. Monitoring Officer Comments:

This report raises no issues for the Monitoring Officer.

8. Report Details:

BUDGET FRAMEWORK FOR THE HRA

8.1 SELF-FINANCING

Since April 2012, the Council's HRA is expected to be self-financing. Thus all income collected locally from rents, service charges and other sources are kept at a local level to deliver housing services to tenants and to maintain the housing stock.

8.2 ANNUAL BUDGET SETTING

Budgets are revisited each year to make amendments for assumptions made on stock levels, interest rates, inflation and other changed circumstances.

8.3 INFLATION

An overall allowance of £415,650 has been set aside for inflation within the HRA. The inflationary increases allowed in the budgets are:

Pay award	1%
Pay – Increments	0.5%
Electricity	1.5%
Gas	1.5%
Water	0%
Insurance	5%
Rates	1.2%
Fuel	0%
General Inflation	0%
Income (except dwelling rents)	1.5%

General inflation has again been held at zero; however, where there are contracts in place, inflation at around the Consumer Price Index (CPI) has been added.

8.4 INTEREST RATES

In respect of interest rates, next year's budget assumes that the base rate will remain low meaning the cost of borrowing will remain at current levels. The Council will continue to monitor the cost of borrowing and if it is likely that it will increase borrowing over a longer time-frame will be considered.

However, this only affects the borrowing attributable to the original Council Own Build sites; Rowan House and Knights Place, as the HRA has fixed the interest rate payable on its 50 year maturity loan with the Public Works Loan Board (PWLb).

8.5 SOCIAL RENT POLICY

With effect from 1st April 2016, the Welfare Reform and Work Act 2016 requires social housing landlords to reduce social housing rents by 1% a year for 4 years from a 2015/16 baseline.

The financial year 2017/18 represents Year 2 out of 4 of implementing the 1% rent cut.

As previously reported, local authorities had previously been given assurance that rents would rise by Consumer Price Index inflation (CPI) + 1% for the ten years; 2015-16 to 2024-25. The statutory 1% rent cut has therefore significantly reduced the resources

available to the HRA with approximately £7.9 million less rental income over the 4 year period compared to previous income projections.

For 2017-18 this will result in an average reduction of £0.76 per week, over 52 weeks, per property.

In November 2016, the Government decided not to proceed with its compulsory Pay to Stay policy, which was due to be introduced from April 2017. Under the policy tenants with household incomes above a threshold of £31,000 would have been required to pay higher rents. Instead, local authorities will continue to have the discretion to implement the policy for tenants with incomes over £60,000.

A separate report is being presented to this committee in respect of setting council dwelling rents for 2017-18, which provides more detail.

8.6 KEY HOUSING REVENUE ACCOUNT BUDGET CHANGES PROPOSED FOR 2017-18

The table below sets out the key changes between the budgets for the current financial year and the draft estimates for 2017-18. Please also refer to Appendix 1.

Movement	£	Detail
Budgeted Deficit for 2016-17	44,125	
Inflationary increases	415,650	As explained in paragraph 8.3
Decreased budget for Management	(68,395)	<ul style="list-style-type: none"> Overall, a minor change in respect of management costs, but the budgets reflect; Following Executive approval on 8 November 2016, the budgets reflect the new arrangements for delivering housing and housing-related support services to tenants in older persons' accommodation. From 1 April 2017, three Older Persons Property Services Officers will provide enhanced property management services and a new service charge will be implemented in order to recover their costs. Employee costs reflect the HRA's contribution to the pension back-funding deficit and the appointment of a dedicated HRA Complaints Officer. Budgetary provision has been made for a survey of tenants and residents (STAR) to be undertaken.
Increased budget for Housing Customers	14,470	<ul style="list-style-type: none"> No significant changes to the budgets within this management unit.
Increased budget for Sundry Land Maintenance	112,090	<ul style="list-style-type: none"> Following a review and risk assessment of trees within Exeter, it is projected that the number of trees on HRA communal land requiring annual inspections and major works will significantly increase over the next 5 years. The demand for works to trees is further exacerbated by the spread

		<p>of ash dieback (Chalara disease) and the resurgence of elm disease.</p> <p>The budget for annual inspections and essential works has therefore been increased, including budgetary provision for temporary staff resources in order to help ensure delivery of the works.</p> <p>A separate report is due to be presented to Executive on 10 January to seek approval for a temporary Tree Officer (12 month fixed-term Grade 5 post).</p>
Decreased budget for Repairs and Maintenance Programme	(402,540)	<ul style="list-style-type: none"> • Overall, a reduction in the budgets required for the Repairs and Maintenance Programme in 2017-18, which reflects; • Budgets for general reactive repairs and repairs to void properties based upon last 6 year average plus an inflationary allowance based on Building Cost Information Service (BCIS) rates. • The budget for external painting to council dwellings provides for works to be undertaken on a 7 year cyclical programme. • Service and maintenance budgets reflect contract arrangements and allow for inflationary rises, where appropriate. • The budget for asbestos removal costs reflects planned capital works (such as kitchen and bathroom replacements), in order to ensure safely removed prior to major works being undertaken.
Increased Revenue Contribution to Capital	1,807,565	<ul style="list-style-type: none"> • The amount of revenue monies required towards financing the HRA capital programme is expected to increase from £4.7m in 2016-17 to £6.5m in 2017-18. <p>This increase reflects the HRA's contribution to the St Loyes Extra Care scheme and the continued investment in COB Wave 2, in particular the re-development of Rennes House Car Park, along with funding other elements of the capital programme.</p>
Increased budget for Capital Charges	278,980	<ul style="list-style-type: none"> • This represents an increased depreciation charge in respect of HRA assets including; dwellings, garages, IT, vehicles and plant and equipment. It is calculated in accordance with the latest Stock Valuation guidance issued by the Department for Communities and Local Government in November 2016. <p>Depreciation is a real cost to the HRA as it</p>

		represents the minimum amount of revenue monies to be set aside in the Major Repairs Reserve in order to provide for future capital works and help maintain assets in a stable condition.
Decreased budget for Housing Assets	(110,560)	<ul style="list-style-type: none"> The budgets reflect the removal of a non-recurring budget within the 2016-17 estimates in respect of the cost of an extensive stock condition survey (2/3rd of the survey is expected to be completed in 2016-17, therefore it is only necessary to allow for 1/3rd of the cost in 2017-18). Budgetary provision has been made for the decant costs associated with the refurbishment of seventeen LAINGS properties in the Cowick area, of which seven are already empty and ten are currently occupied. Budgetary provision has also been made for consultancy fees in respect of a new operating model for Housing Assets.
Decreased income budget in respect of Rents	267,690	<ul style="list-style-type: none"> The budget for rental income from council dwellings has decreased in accordance with the Welfare Reform and Work Act 2016, which requires social landlords to reduce rents payable by individual tenants by 1% each year, for 4 years, between 2016-17 and 2019-20.
Increased income budget in respect of Interest	(55,300)	<ul style="list-style-type: none"> Additional interest receivable in respect of HRA balances (working balance, capital receipts and major repairs reserve).
Budgeted Deficit for 2017-18	2,303,775	

8.7 MOVEMENT IN HRA WORKING BALANCE

The proposed budgets for 2017-18 indicate that a total of £2,303,775 will need to be taken out of the HRA Working Balance in order to meet the budgeted deficit. The impact on the HRA Working Balance is set out below.

Please also refer to Appendix 2 which sets out the total forecast HRA capital resources over the next 3 years, of which the HRA working balance forms a significant part.

Movement on HRA Working Balance	£
Estimated HRA Working Balance, as at 1/4/17	7,471,423
Budgeted Deficit for 2017-18	(2,303,775)
Balance resolved to be retained (HRA contingency)	(4,000,000)
Total Forecast Balance Available, as at 31/3/18	1,167,648

8.8 HRA CAPITAL PROGRAMME

The HRA Capital Programme for 2017-18 is £18.9m, which comprises:

HRA Capital Investment	£
Capital investment in existing stock	12,832,312
Capital investment in the provision of new council homes	5,944,539
Information Technology	125,000
Total HRA Capital Programme 2017-18	18,901,851

In terms of investment in existing stock the proposed budgets for 2017-18 include the following:

- 100 kitchen replacements
- 100 bathroom replacements
- Refurbishment of 17 LAINGS properties, phased over the next 2 years
- Garage upgrades
- 255 boiler replacements
- Commencement of a new programme to replace PVCu windows, initially in the Burnthouse Lane Estate
- Essential health and safety works to improve footpaths and boundary walls

A detailed list of the proposed new schemes for this Committee is attached at Appendix 3.

8.9 HRA CAPITAL FINANCING

The proposed HRA Capital Programme for 2017-18 will be financed as follows. Please also refer to Appendix 2 which sets out the impact on capital resources available to the HRA over the next 3 years.

HRA Capital Finance	£
Major Repairs Reserve	7,745,975
Revenue Contribution to Capital	6,496,642
Capital Receipts	2,861,479
Commutated sums	405,121
Department of Health grant for St Loyes Extra Care Scheme	1,117,500
External contributions	275,134
Total HRA Capital Financing 2017-18	18,901,851

8.10 HRA DEBT

Although the HRA is now self-financing, the Government have put a limit on the amount of borrowing the authority can have for the purposes of the HRA, called the 'debt cap'. For Exeter City Council, the debt cap is £57,882,413.

As set out below, the Council already has debt up to its 'Debt Cap' and therefore has no headroom to take on any additional borrowing in respect of the HRA.

HRA Debt	£
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Settlement Payment to end Subsidy System	£56,884,000
Borrowing undertaken to finance the construction of COB Wave 1	£998,413
Total HRA Debt	£57,882,413

8.11 FEES AND CHARGES

The proposed Fees and Charges for Housing in 2017-18 are included at Appendix 4.

9. BUDGET FRAMEWORK FOR THE COUNCIL'S OWN BUILD SCHEMES

The Council's own build properties at Rowan House and Knights Place form part of the overall Housing Revenue Account, but separate income and expenditure budgets are maintained in order to ensure that they are self-financing.

The main budget variations for 2017-18 are detailed below, please also refer to Appendix 5.

Movement	£	Detail
Budgeted Surplus for 2016-17	(£38,020)	
Inflationary increases	£140	
Other Budget increases	£1,910	Consistent with the rest of the HRA stock, the depreciation charges in respect of Rowan House and Knights Place have increased in accordance with accounting guidance.
Budgeted Surplus for 2017-18	(£35,970)	

10. How does the decision contribute to the Council's Corporate Plan?

The Housing Revenue Account contributes to two key purposes, as set out in the Corporate Plan; help me find somewhere suitable to live and maintain our property assets.

11. What risks are there and how can they be reduced?

It is not permissible for the HRA to go into an overall financial deficit position. In setting the annual budget it is important to ensure that an adequate level of HRA balances is maintained as a contingency against risks.

A key risk that officers are aware of relates to the High Value Assets Levy, which will require the Council to make a payment to the Government in respect of its 'high value' housing. Due to the uncertainty regarding the definition of 'high value' and calculation of the levy payable, it is considered prudent to maintain the HRA Working Balance at no less than £4,000,000 over the medium term.

12. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

No impact

13. Are there any other options?

No

Assistant Director Finance

**Local Government (Access to Information) Act 1972 (as amended)
Background papers used in compiling this report:**

None

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