

**REPORT TO:** SCRUTINY COMMITTEE - PEOPLE  
**DATE OF MEETING:** 4 January 2018  
**REPORT OF:** Chief Finance Officer  
**TITLE:** Housing Revenue Account Estimates 2018-19

**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 2018-19 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 2018-19 and recommends their approval at the Special Meeting of the Council on 20 February 2018.**

**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 2018-19 are set out in the body of this report. The budgets have been set within the confines of implementing the third 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 2018-19 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 £230,880 has been set aside for inflation within the HRA. The inflationary increases allowed in the budgets are:

Pay award	2%
Pay – Increments	0.5%
Electricity	2.5%
Gas	2.5%
Water	0%
Insurance	10%
Fuel	3%
General Inflation	0%
Income (except dwelling rents)	3%

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 reflects the likelihood that whilst base rate may remain low, borrowing for cash-flow purposes will increase and the Council may begin to take out borrowing over a longer timeframe as a result.

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 1<sup>st</sup> 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 2018/19 represents Year 3 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 2018-19 this will result in an average reduction of £0.75 per week, over 52 weeks, per property.

A separate report is being presented to this committee in respect of setting council dwelling rents for 2018-19, which provides more detail.

## 8.6 KEY HOUSING REVENUE ACCOUNT BUDGET CHANGES PROPOSED FOR 2018-19

The table below sets out the key changes between the budgets for the current financial year and the draft estimates for 2018-19. Please also refer to Appendix 1.

Movement	£	Detail
<b>Budgeted Deficit for 2017-18</b>	<b>2,303,775</b>	
Inflationary increases	230,880	As explained in paragraph 8.3
Decreased budget for Management	224,580	<ul style="list-style-type: none"> <li>Following Executive approval on 17 October 2017, the budgets reflect recruitment of three temporary posts to ensure that the new Housing Management IT system is introduced and implemented effectively. A Housing Systems Team Lead and two Housing System Officers will be appointed on 23 month fixed term contracts.</li> <li>Budgetary provision has also been made for consultancy fees in respect of identifying and implementing service improvements across the HRA.</li> </ul>
Increased budget for Housing Customers	39,070	<ul style="list-style-type: none"> <li>Employee costs reflect additional members of the superannuation scheme and the associated employer contributions at 15.8%.</li> <li>The budgets reflect an increase in the provision for the Downsizing Scheme, which provides assistance to tenants who wish to move to smaller accommodation and free up family units.</li> </ul>
Increased budget for Sundry Land Maintenance	62,990	<ul style="list-style-type: none"> <li>As previously reported, 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 of ash dieback (Chalara disease) and the resurgence of elm disease.</li> </ul> <p>The HRA's medium term financial plan had already factored in a £70k year-on-year increase for dealing with its trees and the proposed budget increase for 2018-19 reflects this.</p>
Decreased budget for Repairs and	(170,500)	<ul style="list-style-type: none"> <li>Overall, a reduction in the budgets required for the Repairs and Maintenance Programme in 2018-19, which reflects;</li> </ul>

Maintenance Programme		<ul style="list-style-type: none"> <li>• Budgets for general reactive repairs and repairs to void properties based upon last 7 year average plus an inflationary allowance based on Building Cost Information Service (BCIS) rates.</li> <li>• The budget for external painting to council dwellings provides for works to be undertaken on a 7 year cyclical programme.</li> <li>• Service and maintenance budgets reflect contract arrangements and allow for inflationary rises, where appropriate.</li> <li>• 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.</li> </ul>
Increased Revenue Contribution to Capital	699,910	<ul style="list-style-type: none"> <li>• The amount of revenue monies required towards financing the HRA capital programme is expected to increase from £6.5m in 2017-18 to £7.2m in 2018-19.</li> </ul> <p>This increase reflects the HRA's contribution to the St Loyes Extra Care scheme and financing significant investment in existing stock, in particular the proposed refurbishment of LAINGS properties and the refurbishment of Rennes House.</p>
Increased budget for Capital Charges	70,520	<ul style="list-style-type: none"> <li>• 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.</li> </ul> <p>Depreciation is a real cost to the HRA as it 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.</p>
Increased budget for Housing Assets	161,140	<ul style="list-style-type: none"> <li>• Following Executive approval on 14 November 2017, the budgets reflect the recruitment of two temporary posts to support the new Fire Safety Management Policy. An Implementation Officer and Implementation Surveyor will be appointed on 18 month fixed term contracts.</li> <li>• Budget provision has been made for the cost of decanting tenants in order to facilitate the refurbishment of seventeen LAINGS properties in the Cowick area.</li> </ul>

		<ul style="list-style-type: none"> <li>The budgets also reflect the removal of non-recurring budgets within the 2017-18 estimates in respect of a stock condition survey and operating model consultancy costs.</li> </ul>
Decreased income budget in respect of Rents	168,730	<ul style="list-style-type: none"> <li>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.</li> </ul>
Increased income budget in respect of Interest	(28,950)	<ul style="list-style-type: none"> <li>Additional interest receivable in respect of HRA balances (working balance, capital receipts and major repairs reserve).</li> </ul>
<b>Budgeted Deficit for 2018-19</b>	<b>3,762,145</b>	

## 8.7 MOVEMENT IN HRA WORKING BALANCE

The proposed budgets for 2018-19 indicate that a total of £3,762,145 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.

<b>Movement on HRA Working Balance</b>	<b>£</b>
Estimated HRA Working Balance, as at 1/4/18	9,226,749
Budgeted Deficit for 2018-19	(3,762,145)
Balance resolved to be retained (HRA contingency)	(4,000,000)
<b>Total Forecast Balance Available, as at 31/3/19</b>	<b>1,464,604</b>

## 8.8 HRA CAPITAL PROGRAMME

The HRA Capital Programme for 2018-19 is £18.2m, which comprises:

<b>HRA Capital Investment</b>	<b>£</b>
Capital investment in existing stock	12,487,220
Capital investment in the provision of new council homes	5,690,000
<b>Total HRA Capital Programme 2018-19</b>	<b>18,177,220</b>

In terms of investment in existing stock the proposed budgets for 2018-19 include the following:

- 132 kitchen replacements

- 148 bathroom replacements
- Refurbishment of 17 LAINGS properties
- 400 boiler replacements
- Year 1 of storage facility improvements in accordance with the Fire Safety Management Policy
- 6 properties to have low carbon building retrofit as part of a Zero Energy Buildings project
- 236 properties to have window replacement
- Re-roofing to 50 houses and planned works to roofs of blocks of flats

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 2018-19 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.

<b>HRA Capital Finance</b>	<b>£</b>
Major Repairs Reserve	7,830,670
Revenue Contribution to Capital	7,196,550
Capital Receipts	1,000,000
Commuted sums	10,000
Department of Health grant for St Loyes Extra Care Scheme	1,490,000
External contributions	650,000
<b>Total HRA Capital Financing 2018-19</b>	<b>18,177,220</b>

## 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.

The Autumn Budget 2017 announced that HRA borrowing caps will be lifted in areas of high affordability pressure, whereby local authorities will be able to bid for increases in their cap from 2019-20 in order to build more council homes. The HRA's current debt cap will therefore remain in place for 2018-19.

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

## 8.11 FEES AND CHARGES

The proposed Fees and Charges for Housing in 2018-19 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 2018-19 are detailed below, please also refer to Appendix 5.

<b>Movement</b>	<b>£</b>	<b>Detail</b>
<b>Budgeted Surplus for 2017-18</b>	<b>(£35,970)</b>	
Inflationary increases	£200	
Other Budget increases	£19,140	The allocation of employee costs has been revised to reflect officer time spent managing the council own build properties.
<b>Budgeted Surplus for 2018-19</b>	<b>(£16,630)</b>	

## 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?

The proposed revenue budgets for the year will help the HRA provide tenancy management services and maintain the condition of council dwellings, which has a positive impact on the health and well-being of Council tenants. In the delivery of services, housing officers are able to identify and manage issues relating to safe-guarding, vulnerabilities and community safety.

In terms of capital expenditure, the 2018-19 capital programme will enable enhancements to existing dwelling stock to be undertaken and help support the provision of new housing, both of which will have a positive impact on those in housing need.

**13. Are there any other options?**

No

**Chief Finance Officer**

**Local Government (Access to Information) Act 1972 (as amended)**

**Background papers used in compiling this report:**

None

Contact for enquiries:

Democratic Services (Committees)

Room 2.3

(01392) 265275