

 <b>Executive: 29<sup>th</sup> November 2017</b>		<b>Agenda Item No.</b>  <h1 style="text-align: center;">4</h1>
<b>Title</b>	Housing Revenue Account (HRA) budgets latest 2017/18 and base 2018/19	
<b>For further information about this report please contact</b>	Mike Snow Tel: 01926 456800 Andrew Rollins Tel: 01926 456803	
<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>		
<b>Background Papers</b>	HRA Business Plan Review (April 2017) 2017 Budget Report (Feb 2017) Housing Related Support (June 2017)	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan? (If yes include reference number)</b>	Yes Ref 878
<b>Equality Impact Assessment Undertaken</b>	No

<b>Officer/Councillor Approval</b>		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	14/11/17	Bill Hunt
Head of Service	14/11/17	Mike Snow
CMT	14/11/17	
Section 151 Officer	14/11/17	Mike Snow
Monitoring Officer	14/11/17	Andy Jones
Finance	14/11/17	Andrew Rollins
Portfolio Holder(s)	14/11/17	Councillor Phillips
<b>Consultation &amp; Community Engagement</b>		
<b>Final Decision?</b>	Yes	
<b>Suggested next steps (if not final decision please set out below)</b>		

## 1. Summary

- This report presents the Housing Revenue Account (HRA) 2017/18 latest and 2018/19 base budgets. The figures are based predominately on the assumptions agreed in the HRA Business Plan Review (Executive 5<sup>th</sup> April 2017), including those relating to rents. A rent setting report will be presented to the Executive in February 2018 who will then recommend 2018/19 HRA Rents to Council.
- Appendix 'A' summarises the adjustments from 2017/18 base budgets to the 2017/18 latest budgets and 2018/19 base budgets.

## 2. Recommendation

To recommend to Council:

- (a) the latest revenue budget for Housing Revenue Account Services in respect of 2017/18 as outlined in Appendix 'A';

## 3. Reasons for the Recommendation

- 3.1** This report considers the current year's budget, and includes details of proposed updates to the 2017/18 Budget. The report also recommends the base budget requirements that will be used in the setting of the HRA budgets for 2018/19. These figures reflect the costs of delivering an agreed level of service, and any unavoidable changes in expenditure (for example, where the Council is contractually or statutorily committed to incur additional expenditure).
- 3.2** Any recent changes that need to be resolved that have not been included in the budgets at this stage will be fed into the February report. In February the Council will be in a position to agree the 2018/19 Budget and HRA rents for the year.
- 3.3** In agreeing the latest 2017/18 budgetary position, managers have reviewed their current and forecast financial requirements. Some changes have already been reported to Members as part of the Quarterly Budget Review Report in August, with further amendments being identified during the budget setting process to determine next year's base position.

### 3.4 Latest Budgets 2017/18

**3.4.1** A review of the 2017/18 budget has also been carried out in order to establish the latest budget for the current year. This then informs the base position for 2018/19.

**3.4.2** The following table summarises how the latest 2017/18 HRA budget has been calculated:

	£
<b>Original Approved Net HRA Surplus 2017/18</b>	<b>(25,200)</b>
Changes in Income and Expenditure	156,000
Changes in Supervision and Management	42,600
Pension adjustment changes	(236,200)

Contributions to / from reserves

37,600

**LATEST NET HRA SURPLUS 2017/18**

**(25,200)**

**3.4.3** Key drivers of the change in Income and Expenditure budgets include:

- Increase in Housing Repairs Supervision to reflect cost of agreed service £116,000
- Increase in council tax payments following cessation of 30 day void period from April 2017 £112,500
- Increased contributions to provisions £112,700
- Reduction in repairs and maintenance costs (£95,500)
- Review of bad debt provision (£130,200).

**3.4.4** Key drivers of the increase in Supervision and Management budgets include:

- Revised support service allocations £85,100.
- HRA Grounds maintenance charges previously incorrectly funded through the GF £92,900
- Additional sites covered by cleaning contract £25,100
- Fixed term staffing funded through Head of Housing vacancy £34,900
- Prevention works against illegal traveller encampments £17,500
- IAS 19 adjustments £74,100
- Housing Related Support restructure (£181,800)
- Increased Housing Repairs Supervision recharge to reflect cost of agreed service (£116,000)

**3.4.5** Appendix 'A' provides a more detailed breakdown of key variances.

**3.4.6** As a result of the above variations to the 2017/18 HRA budgets, the forecast contribution to the HRA Capital Investment Reserve for the year will be £4.6m.

**3.4.7** At this moment in time there are no changes to the HRA element of the Housing Investment Programme that have not already been reported to and approved by the Executive. A full revision of the Housing Investment Programme will be presented to Council in February 2018.

### **3.5 2018/19 Base Budget**

**3.5.1** In determining the 2018/19 Base Budget, the over-riding principle is to budget for the continuation of services at the agreed level. The following adjustments need to be made to the 2017/18 Original Budgets.

- Removal of any one-off and temporary items
- Addition of inflation (contractual services and pay only)
- Addition of previously agreed growth items
- Addition of unavoidable growth items
- Inclusion of any identified savings

**3.5.2** The table below summarises how the 2018/19 HRA base budget has been calculated.

	£
<b>Original Approved Net HRA Surplus 2017/18</b>	<b>(25,200)</b>
Changes in Income and Expenditure	413,400
Changes in Supervision and Management	(174,500)
Pension adjustment changes	(220,700)
Contributions to / from reserves	(21,500)
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<b>BASE NET HRA SURPLUS 2018/19</b>	<b>(28,500)</b>

**3.5.3** Key drivers of the change in Income and Expenditure budgets include:

- Reduction in housing rents by 1% £247,800
- Increase in Housing Repairs Supervision to reflect cost of agreed service £178,300
- Increase in council tax payments following cessation of 30 day void period from April 2017 (includes 3.7% average Council tax increase) £117,400
- Increased contributions to provisions £112,700
- Reduction in repairs and maintenance costs (£249,700)

**3.5.4** Key drivers of the decrease in Supervision and Management budgets include:

- Revised support service allocations £132,300.
- HRA Grounds maintenance charges previously incorrectly funded through the GF £104,200
- Additional sites covered by cleaning contract £31,800
- IAS 19 adjustments £90,100
- Housing Related Support restructure (£369,900)
- Increased Housing Repairs Supervision recharge to reflect cost of agreed service (£178,300)

**3.5.5** Appendix 'A' provides a more detailed breakdown of key variances.

**3.5.6** A number of assumptions have been made in setting the budgets for 2018/19.

### **Inflation**

No inflation has been applied to budgets, apart from those where the Council is legally contracted to do so. 1% has been applied for an assumed pay award.

### **Rents**

The base rent budget in this report is a baseline calculated from the rental assumptions presented in the 2017 HRA Business Plan.

The actual rents to be charged in 2018/19 and the Council's rent policy will be decided by Council in February 2018, and budgets will be updated to reflect those decisions.

The base 2018/19 budgets presented here allow for housing rents being reduced by 1% on the rent charged in 2017/18, to comply with the

Government's policy on rents for social housing. In the case of void properties, the base rent will be:

The assumed rent rate which should be what the previous tenant paid if that is already above Target Social Rent (Formula Rent) then reduced by 1% in the first relevant year and again by 1% for each successive year

or

The formula rent for 2017/18, minus 1% in 2018/19 rent year and so on until the recently agreed change from 2020 (see paragraph 8.2.1).

Rent budgets include the projected effect of void homes being moved to Target Social Rent (Formula Rent) when re-let.

### **Growth / Income Reductions**

Unavoidable and previously committed growth has been included in the Base Budget.

### **Housing Related Support**

The Supporting People Grant from Warwickshire County Council ceased from 31 July 2016, with a full year impact of £464,000 being included within the 2017/18 base budget.

An Executive Report was approved in June 2017 outlining a number of changes, including new charges to tenants, a redesign of staffing and private income generation plans. The Housing Related Support restructure has resulted in a reduction in budget (See paragraph 3.4.4 for 2017/18 part-year reduction and paragraph 3.5.4 for 2018/19 full year effect).

### **HRA Capital Investment Reserve**

Any HRA surplus above that required to maintain the appropriate HRA working balance is transferred into the HRA Capital Investment Reserve to be used on future HRA capital projects. The 2018/19 Base Budget allows for a £4.6m contribution to the reserve.

### **Notional Interest**

Notional interest has been charged to the HRA within the Capital Charges. This represents the cost of tying up resources in the asset. This has been charged against HRA garages and shops at their Existing Use Value (EUUV). HRA housing has not been included in this calculation due to the assured nature of tenancies, restricting the council's ability to sell occupied housing assets.

## **4. Policy Framework**

The Housing Revenue Account (HRA) latest budget 2017/18 and base budget 2018/19 report forms part of the Budgetary Framework for implementing Fit for the Future. This report is in accordance with the Council's Financial Strategy as last approved by the Executive in February 2017.

### **4.1 Fit for the Future (FFF)**

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the

way forward for implementing a significant part of one of the Council's Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

<b>FFF Strands</b>		
<b>People</b>	<b>Services</b>	<b>Money</b>
<b>External</b>		
<b>Health, Homes, Communities</b>	<b>Green, Clean, Safe</b>	<b>Infrastructure, Enterprise, Employment</b>
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/productivity of local economy Increased employment and income levels
<b>Impacts of Proposal</b>		
Ensure housing and services are suitable for occupiers, meeting their needs and contributing to their health and well-being.	Budgets set to ensure HRA open spaces are maintained.	HRA shop rentals agreed to ensure voids minimised and the District is a place that people will want to visit.
<b>Internal</b>		
<b>Effective Staff</b>	<b>Maintain or Improve Services</b>	<b>Firm Financial Footing over the Longer Term</b>
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
<b>Impacts of Proposal</b>		
The HRA budgets provide the necessary resources to achieve these outcomes	Enable tenants needs to be met, and support improvement of services relating to Council Housing Stock.	The budgets ensure that debt can be serviced alongside the strategy outline in the HRA Business Plan.

A key element of Fit for the Future is ensuring that the Council achieves the required savings to enable it to set a balanced General Fund Budget whilst maintaining service provision. The Housing Revenue Account is subject to the same regime to ensure efficiency within the service and value for money for tenants.

## **4.2 Supporting Strategies**

Each strand of the FFF Strategy has several supporting strategies. Improving housing standards in residents' homes directly and positively contributes to the Housing and Health-and-Wellbeing priorities within the Council's Sustainable Community Strategy. It also contributes to the Housing and Homelessness Strategy objective of improving the management and maintenance of existing housing.

## **4.3 Changes to Existing Policies**

The budgets proposed are in accordance with existing policies. The report does not propose any changes to the policies regarding the plan and strategy which comprise the Housing Investment Programme.

### **4.3.1 HRA Business Plan**

Under 'Self Financing' the HRA has taken on significant debt, £136.2m, but should have gained greater capacity to provide new homes and invest in the service. The HRA Business Plan projects income and expenditure over 50 years to demonstrate the ability to repay the debt, maintain the housing stock and provide new homes. The base budget for 2018/19 is calculated from the projections contained in the latest HRA Business Plan. The Business Plan and base budget will however need to be reviewed as more details of the Housing and Planning Act become known. Currently the Business Plan is reviewed on an annual basis, and reported to Executive in March. The Act contains a number of policy changes that will impact on the capacity of the HRA to support and develop the Council's landlord service.

## **4.4 Impact Assessments**

All budget managers have reviewed their budgets as part of the comprehensive budget setting process, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Executive and Senior Management Team. This is in addition to being reviewed on an ongoing monthly basis. Changes incorporated into the latest and 2018/19 budgets based on previously approved Executive Reports (Housing Related Support) will have had their impacts set out within their own reports, and assessed as part of the Executive process accordingly.

## **5. Budgetary Framework**

**5.1** Members are reminded that the 2018/19 HRA rents will be set in February after budgets are finalised, as part of a separate report to Executive.

**5.2** For the setting of base 2018/19 revenue budgets, no inflation has been added other than where contracted or unavoidable. In addition, there is also a 1% increase allowed for in the salary budgets. This is consistent with the approach for General Fund Services. Other unavoidable price increases, including any potential for a higher pay award (an additional 1% would cost £29,000, plus any subsequent support service staff cost increases) will be funded through reduced contributions to the HRA Capital Investment Reserve.

## **6. Risks**

- 6.1** The Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the funding available.
- 6.2** The main sources of income which may be subject to reductions include:
- Rental income, including bad debts, void rent loss and Sale of Council Houses (SOCH) through Right to Buy (RTB)
  - Housing Related Support (tenant and private income)
  - Fees and charges
  - Investment interest
- 6.3** Increased expenditure in service provision may be due to:
- Inflation and price increases for supplies and services;
  - Increased demand for services increasing costs;
  - Changes to taxation regime;
  - Unplanned responsive expenditure;
  - Assumed savings in budgets not materialising;
  - Changes in Government legislation.
- 6.4** Triggers for increased costs or reduced income include:
- Economic cycle – impacting upon inflation, interest rates, unemployment, demand for services, Government funding available;
  - Unplanned expenditure, e.g. costs from uninsured events or legal costs;
  - Project costs – whereby there are unforeseen costs, or the project is not correctly costed, or the risks related to them are not properly managed.
  - Changes to assumptions underpinning the Housing Business Plan – these assumptions are closely monitored;
  - Levies, charges and reductions in housing stock that may result from compliance with the Housing and Planning Act;
  - Government policy, e.g. full rollout on Universal Credit.
- 6.5** Many controls and mitigations are in place to help manage these risks. These include:
- The comprehensive Budget Review process. This entails all budget managers reviewing their budgets on at least a monthly basis, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Executive and Senior Management Team.
  - Financial Planning with the Housing Business Plan, bringing together all known/projected issues that will impact on HRA finances in the medium and long term.
  - Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
  - Project Management and associated controls.
  - Trained staff and access to appropriate professional advice (e.g. WCC Legal, Local Government Futures for advice on local government funding and developments in housing).
  - Scrutiny by Members of the Council's finances, including Budget Reports and the financial implications of all proposals brought to them for consideration.



- Maintaining a HRA Capital Investment Reserve (CIR) to enable repayment of self-financing loan, fund capital investment, such as providing new homes, and to fund any unexpected HRA costs. The HRA CIR currently stands at £22.9m.
- In addition to Reserves, the HRA Balance stands at £1.4m. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level and replenish any monies that are drawn down.
- The HRA follows the same Risk Management process as all Service Areas across the Council, including the on-going review and maintenance of risk registers.
- Specific causes of reductions to income or increased expenditure should continue to be managed by the Service Area as part of managing risks within the Service Risk Register. The Housing & Property Service Area Risk Registers are brought to Finance and Audit Scrutiny Committee every two years.

## **7. Alternative Option(s) considered**

The purpose of this report is to produce budgets as determined under the requirements of the Financial Strategy. Any alternative strategies will be the subject of separate reports.

## **8. Background**

**8.1** With effect from April 2002, the Government determined how rents should be set for both housing association and Council properties, by setting out a formula that determines a target rent. Councils and housing associations were expected to amend and alter their rents to move towards this Target Social Rent which was designed to align rents across the two sectors. Municipal rents have traditionally been lower than those charged by associations. This policy, known as Rent Convergence, was abandoned by the government. However, the calculation for a Target Social rent, which determines what a council can charge unless it has entered into an agreement with Homes and Communities Agency to levy higher Affordable Rent (80% of full market rent) to fund new development, remains in place.

## **8.2 Housing and Planning Act**

In October 2015, the Housing and Planning Act was published. This Act, which received Royal Assent in May 2016, provides for a number of policies that will impact on the financial viability of the HRA Business Plan. In the absence of detailed regulations, it is not possible to accurately predict the impact of these changes. However, it is possible to make some informed estimates about the impacts. The changes and these estimates are detailed below.

### **8.2.1 Social rents**

As part of the Prime Ministers keynote speech at the October Conservative Party Conference, it was confirmed that from 2020 social rents will increase by the consumer price index plus 1% each year. The current policy of reducing rents by 1% each year will therefore continue until this time.

### **8.2.2 Right to Buy**

The Right-to-Buy (RtB) is to be extended to tenants of housing associations, with the cost of funding the discounts given to tenants by the associations to be covered by local housing authorities. Local authorities will have a duty to consider but not an obligation to proceed with the sale of 'high value' properties as a way of helping them to find the necessary funds to support this policy. This is currently still at the Pilot stage and no formal notification has been given relating to national implementation.

### **8.2.3 'High Value' properties**

A further update is expected on this policy, following confirmation in the 2016 Autumn statement that the Government was to be funding an expanded pilot, resulting in no Higher Value Asset payments from local authorities being required in 2017/18.

However it is still not clear how much each council will have to contribute towards this policy as the Government has yet to set out the formula or criteria that will be used for the calculation or to define what 'high value' will mean. It is likely that the criteria for what will in effect be a 'levy' on the HRA will relate in some form to the open market value of the each council's housing stock and the turnover of its stock.

In the absence of detail, it is therefore difficult to predict what the precise impact will be on Warwick District, which is a high-value housing area. However, by taking the predicted cost of extending RtB nationally, estimated at £1.5bn per annum and dividing it by the 1,682,000 council owned homes in England gives a potential 'levy' of £892 per home. When multiplied by the Council's 5,500 homes, the possible levy for Warwick District Council using this simplistic methodology could be £4.9m per year. To meet this for property sales would require the Council to sell at least 35 empty properties each year. Some forecasts have determined that a potential annual 'levy' could be as high as £17m per year for Warwick District Council's HRA.

### **8.2.4 Local Housing Allowance**

With effect from April 2018 the payment limits that apply to Local Housing Allowance (LHA), which is payable to tenants in the private sector, will apply to all tenants whose social tenancy began after April 2016. The Council's rents are well below current LHA levels for family sized homes but in the case of those aged below 35 whether working or not, LHA is restricted to the cost of single room in a shared household, currently circa £72 a week. This is less than the cost of one bedroom council flat. The Council will therefore continue to consider its approach to this client group, including how it can assess and then manage the financial risks to the HRA Business Plan of this policy.