Agenda Item No 11

Resources Board

25 January 2016

Report of the Deputy Chief Executive

Housing Revenue Account Estimates 2016/17 and Rent Review

1 Summary

1.1.1 The report covers the revised budget for 2015/16 and an estimate of expenditure for 2016/17, together with forward commitments for 2017/18, 2018/19 and 2019/20.

Recommendation to the Board

a To accept the revised estimate for 2015/16;

b To adopt rent decreases of minus 1% as required by the government;

. . . **c To approve the proposed fees and charges for 2016/17 as set out in Appendix D;**

. . . **d To approve the service charges for the cleaning of communal areas, as detailed in Appendix E, from April 2016;**

. . . **e To approve the service charges for window cleaning, as detailed in Appendix F, from April 2016; and**

f To accept the Estimates of Expenditure for 2016/17, as submitted.

2 Consultation

2.1 The Chairman, Vice Chairman and Opposition Spokesperson for Resources Board have been sent an advanced copy of this report for comment. Any comments received will be reported verbally at the meeting.

3 Introduction

3.1 In consultation with other Assistant Directors, the Assistant Director (Finance and Human Resources) has prepared an estimate of net expenditure for 2016/17 and this, together with a revised budget for 2015/16, appears in Appendix A. To provide a more complete picture of the spending pattern of the service, the actual figures for 2014/15 are shown.

4 Comments on the 2015/16 Revised Budget

4.1 The revised budget for 2015/16 shows an expected surplus of £570,770; which is £530,080 higher than the approved budget surplus of £40,690. The main variations are given below.

4.2 **Repairs Fund £23,470**

4.2.1 Departmental support costs have increased as some housing maintenance salaries previously charged to Housing Direct Works and Capital are now charged to Repairs. The increase has been partially offset by a decrease in central support costs due to a reallocation of depot costs and a reduction in Financial Services charges due to an in year vacancy. There has also been a reduction in insurance chargeable to the repairs fund.

4.3 **Management Services £37,870**

4.3.1 The major change shown in General Administration relates to an increase in bank charges due to increasing numbers of payments by debit and credit cards.

4.3.2 Flats and Community Centres budgets have increased reflecting the changes to the grass cutting services provided to flats and communal areas and the loss of letting income from the use of community rooms.

4.4 **Contributions to Capital (£545,920)**

4.4.1 Since the Housing Revenue Account became self financing the Government allows the authority to retain some of the capital receipts from the sale of additional Council Houses above those included in the Business Plan. The Allowable Debt from Receipts can be used to fund new capital spend or repay borrowing.

4.5 **Capital Expenditure (£95,710)**

4.5.1 Required expenditure has been amended to reflect the latest stock conditions survey.

4.6 **Interest on Balances (£28,990)**

4.6.1 The interest earned has increased due to a higher level of balances being held by the Housing Revenue Account during the year.

4.7 **Gross Rents £74,920**

4.7.1 There has been a reduction in rental income due to a higher than expected level of council house sales and a higher level of void properties during the year.

5 **Rent Setting**

5.1 The CLG have changed government rent setting policy and now require all social rents to be decreased by 1% per annum in each of the next four years. Adherence to the revised policy will mean that properties will no longer reach their target rents. The Government's suggested way for local councils to achieve target rents is to increase the rent of each property to its target rent when the property becomes vacant.

5.2 The figures included in this report are based on the changes required by the CLG. This gives an average rent decrease of £0.86 per week (1%), although individual rent changes will vary from decreases of £0.70 to £1.16 per week in 2016/17.

5.3 The impact of the new rent policy has been built into the 30 year Business Plan detailed in Appendix H.

6 Comments on the 2016/17 Estimates

6.1 The Housing Revenue Account has been prepared, taking into account the following assumptions:

- A 2% pay award from 1st April 2016;
- Increases in the Council's pension contribution rate of 0.75% per annum up to 2019/20;
- To adopt the government policy of minus 1% for all rents;
- Starting in 2017/18, a general inflationary increase of 2% has only been given in alternate years within supplies and service budgets, in order to encourage efficiencies in procurement, including for the Repairs Fund.

6.2 The estimated balance on the Housing Revenue account at 1 April 2016 is £2,549,411, which is higher than the £1,795,264 anticipated in the original estimates. Looking in greater detail at the coming year, the budget for 2016/17 shows an expected surplus of £374,760. The main variations are explained below:

6.3 Repairs Fund (£68,550)

6.3.1 The contribution to the Repairs Fund has been calculated with an inflationary increase of 2% and the assumed sale of 30 council houses partially offset by ... a net six new properties in Atherstone. There has been an increase in Financial Services charges to reflect the full establishment.

6.4 **Management Services £21,240**

6.4.1 The increase in the Supporting People budget reflects the expected loss of the supporting people grant from Warwickshire County Council from July 2016. The remainder relates to inflationary allowances made to budgets.

6.5 **Capital Expenditure (£73,660)**

6.5.1 Required expenditure has been amended to reflect the latest stock conditions survey.

6.6 **Debt Management £137,070**

6.6.1 An additional £150,000 of borrowing will be repaid in line with the schedule of debt repayments. This is partially offset by a decrease in the interest payable on the debt outstanding, as the debt reduces.

6.7 **Gross Rents £207,380**

6.7.1 There is a decrease in Council house rental income to reflect the rent decrease of 1% and the expected level of council house sales.

7 **Housing Repairs Fund**

7.1 The HRA makes an annual contribution to the Repairs Fund. Part of the contribution is set aside for the day to day maintenance, with the remainder used for planned maintenance work. The fund covers payments to Housing Direct Works and outside contractors. The majority of the current workload is completed by Housing Direct Works (see Appendix B).

7.2 A small balance is usually maintained on the Housing Repairs Fund, which is used to meet fluctuations in the timing of repair work.

8 **Housing Direct Works**

8.1 Estimates for Housing Direct Works (HDW) have been prepared for 2016/17, along with the revised position for 2015/16, and these are attached as Appendix C.

8.2 **Revised Estimate 2015/16**

8.2.1 Net controllable expenditure has decreased by £52,820. The main change relates to a reduction in in the use/cost of materials and scaffolding. This has been partially offset by an increase in transport maintenance, hiring in costs and buy out of vehicles at the end of leases, while vehicles are being repaired or replaced. In addition employee costs have risen following the allocation of more electrical work to HDW instead of using sub contractors.

8.2.2 There has been a reallocation of departmental costs relating to the Housing

Maintenance section between the DSO, capital and the Repairs Fund.

8.3 **Estimate for 2016/17**

8.3.1 The net controllable expenditure has decreased by £38,720. This is due to a decrease in transport as the higher level of maintenance costs, hiring in and lease buy out costs incurred in 2015/16 are not expected to continue. This has been partially offset by an increase in employee costs related to the pay award and a 0.75% increase in superannuation contributions. In addition part of the materials budget reduction in 2015/16 has been reinstated.

9 **Fees and Charges**

9.1 There are limited increases proposed for fees and charges, so that users of facilities are not discouraged. The detailed list of fees and charges is attached as Appendix D to the report.

10 **Service Charges**

10.1 There is a requirement for service charges to be paid by those tenants who actually receive specific services. NWBC make specific charges for window cleaning and cleaning costs of communal areas in blocks of flats. The current
. . . and proposed charges are attached in Appendices E and F.

10.2 The Council also makes a service charge to the lease holders of flats that have been sold under the Right to Buy legislation. This reflects the actual costs of management and maintenance.

11 **Four Year HRA Forecast – 2016/17 to 2019/20**

11.1 A detailed four year estimate has been developed, to cover the medium term position of the HRA. This is summarised in the table below, with some
. . . additional detail given in Appendix G.

	2016/17 £000	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Management and Maintenance	5,194	5,327	5,427	5,531
Interest on borrowing	1,611	1,593	1,569	1,539
Repayment of borrowing	1,450	1,600	1,700	1,750
Capital expend funded by revenue	2,367	2,166	2,062	1,372
New Build	1,137	1,159	1,183	1,206
Total Expenditure	**11,759**	**11,845**	**11,941**	**11,398**
Income	(12,054)	(11,881)	(11,947)	(11,707)
Interest on Balances	(80)	(84)	(91)	(89)
Total Income	**(12,134)**	**(11,965)**	**(12,038)**	**(11,796)**
(Surplus)/Deficit on the year	(375)	(120)	(97)	(397)
Balance at 31 March	**(2,924)**	**(3,044)**	**(3,141)**	**(3,538)**

11.2 The figures show an increasing level of balances at the end of 2019/20, which feed into the 30 year business plan detailed in section 12 of this report. However the Housing and Planning Bill 2015 sets out legislation relating to the sale of vacant high value void properties and mandatory rent levels for high income social tenants which is not yet included in these figures.

11.3 The Bill proposes that an annual estimate will be made of the market value of each authority's interest in any high value housing that is likely to become vacant during the year. Based on those estimates a levy will be required from each Local Authority Housing Revenue Account to pay for the Government's Right to Buy Scheme for Housing Associations. The amount of the levy for this Council is not yet known but could be in the range of £1-3 million per annum.

11.4 The pay to stay scheme for high income tenants will not be in place before April 2017 and government policy is still to be established. However the additional rent collected by charging a market rent over current rent levels will be paid over to the Treasury. It is expected that this scheme will also be dealt with through the application of a levy, using an estimate of the additional rent which could be collected.

11.5 The figures include an increase in bad debt provision. The sufficiency of the level of provision will depend on the outcomes of the changes expected from the welfare reform in the next couple of years, and the impact of any further increases in uncollectable rent. There is also a potential requirement for a growth in staffing to deal with any additional workloads resulting from welfare reform and the general collection of rent income.

12 30 Year HRA Business Plan

12.1 As management of the housing stock is a long term requirement, a business plan has been put together for 30 years, although expenditure in particular is difficult to predict so far in advance. This has been updated as part of the estimates process and the revised business plan is attached as Appendix H.

12.2 In updating the business plan, a number of assumptions have been made:

- New build will continue throughout the life of the plan, although capital spending has been reduced to the level required to enable the additional capital receipts to be retained;
- Management and maintenance costs have been assumed for the new properties, together with rental income;
- The additional receipts that the Council is able to keep for use on new build will continue;
- Right to Buy Sales will continue at the current level for the first 10 years of the plan.

12.3 The expected position on the Housing Revenue Account at the end of the 30 years is a surplus of £45 million. This is after funding capital expenditure of £166 million, with £21 million of that funding set aside for new build schemes or other improvement schemes. Borrowing of £56 million will also have been repaid.

12.4 However the expected surplus of £45 million after 30 years is not excessive. The additional costs that the HRA will have to face, indicated in paragraphs

11.3 and 11.4, could amount to significantly more than the expected surplus. Once the actual levies are known, amendments to the Business Plan will be needed to ensure that it remains viable going forward.

13 Risks to the Business Plan

13.1 In addition to the new payments detailed above, the expected surplus on the Business Plan is dependent on adherence to the assumptions used in the forecast. Varying these would impact on the achievement of a surplus. The key risks to the budgetary position of the Housing Revenue Account include:

- The potential ongoing impact of sustaining rent income levels with the expected changes from welfare reform;
- The requirement on the Council to meet statutory housing needs and support tenants to sustain their tenancies as well as manage them in moving on as secure tenancies are replaced with insecure ones;
- A change in interest rates, if funds need to be borrowed;
- A reduction in the rent levels assumed in the Business Plan, as this could impact significantly on the expected surpluses. More attractive Right to Buy conditions could encourage higher sales;
- The requirements of an ageing stock and the need to meet the Decent Homes Standard are likely to continue to increase the demand for capital works. Work to keep the Council's asset in good condition will be prioritised and accommodated within existing budgets;
- Any reduction in the performance of Housing Direct Works will put pressure on the Council to use external contractors and therefore will impact on the level of expenditure;
- Asbestos removal is an ongoing cost pressure over the next few years until the full picture of the level of asbestos contained in council houses and the cost of removal is assessed.

. . . 13.2 A risk analysis of the likelihood and impact of the risks identified above are included in Appendix I.

13.3 Assuming a minimum working balance of £750,000, the Council can continue with services at current levels over the next four years. However, the service will still need to demonstrate value for money and rent collection rates will have to remain at the current level.

14 Conclusions

14.1 Payments arising from the Housing and Planning Bill will have a significant impact on the Housing Revenue Account which cannot yet be quantified. Decisions which vary the Business Plan in any significant way should not be taken until the impact of the expected levies is known. Decisions will need to be taken to ensure the long term sustainability of the Housing Revenue Account.

15 Report Implications

15.1 Finance and Value for Money Implications

15.1.1 As above.

15.2 **Environment and Sustainability Implications**

15.2.1 Operating in line with the Business Plan will ensure the long term sustainability of the Housing Revenue Account.

15.3 **Equality Implications**

15.3.1 The impact of the Welfare Reforms on Council tenants and income collections has previously been reported to Housing Sub Committee. Work being undertaken will help to inform the Council's understanding of the impacts from the rent restructuring changes and the increases being applied. Monitoring of the impacts will be carried out as any changes are implemented.

15.4 **Risk Management Implications**

15.4.1 There are a number of risks associated with setting a budget, as assumptions are made on levels of inflation and demand for services. To minimise the risks, decisions on these have been taken using past experience and knowledge, informed by current forecasts and trends. However, the risk will be managed through the production of regular budgetary control reports, assessing the impact of any variances and the need for any further action.

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