Taunton Deane Borough Council

Tenant Services Management Board – 16 January 2017

Housing Revenue Account (HRA) Budget Estimates 2017/18

This matter is the responsibility of the Executive Member, Councillor Terry Beale

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1 Executive Summary

1.1 This report updates the Board on the draft Housing Revenue Account (HRA) budget proposals for 2017/18.

1.2 The proposals included in this report would enable the Council to set a balanced budget for 2017/18. This includes a transfer from HRA General Reserves of £0.243m, which is lower than the £0.350m included in the Business Plan that was approved by Council in July 2016.

1.3 However, the longer term position is greatly affected by external changes such as an expected increase in pension contribution, and this will need to be monitored over the medium and long term in order to remain affordable.

1.4 Areas of risk and uncertainty, such as the changes to pension contributions may affect this position further.

2 Recommendations

2.1 Tenant Services Management Board is recommended to consider and comment on the HRA draft budget and proposed rent decrease, and to inform the Executive and Full Council of any amendments the Board wish to suggest.

3 Introduction and Background

3.1 The purpose of this report is to update and request comments from the Board on the Draft Housing Revenue Account (HRA) budget proposals for 2017/18.

3.2 In 2012 Taunton Deane moved away from a national subsidy system, which meant an annual payment from the HRA to central government, to be ‘self financing’. As part of the self financing agreement, a one-off payment of £85.12m was made to government, in return for being able to retain all income locally to manage and maintain the housing stock. The total debt in the HRA at the start of self financing was £99.7m.

3.3 In order to manage the freedoms gained by the HRA through self financing, a new 30 year Business Plan (2012-2042) was introduced. This set out the Council’s overall aims and objectives for Housing Services, as well as laying out plans to manage the increased risks and opportunities. The HRA Business Plan has been reviewed and updated annually since 2012, but since 2015 there have been many changes in national policies and local aspiration and full review of the Business Plan was undertaken in 2016. The draft estimates for 2017/18 reflect the amendments approved in the Business Plan. Further details of the financial impacts of the review are included in Section 4.

3.4 The HRA faces a number of risks and uncertainties, many of which could be significant but the actual financial impact is not yet known. These are listed in Section 11.

3.5 A summary of the overall Draft HRA Budget 2017/18 is included in Appendix A.

4 Business Plan Review 2016

4.1 A full review of the HRA 30 Year Business Plan was approved by Council in July 2016.

4.2 This included a number of changes which affected the base budget for 2017/18. The key amendments are summarised below.

Table 1: 2017/18 Changes in Approved Business Plan

	Reference Paragraph	£000s
Impact in 2017/18 of key changes within the Business Plan		
Starting position - balanced budget		0.0
Rents - rent reduction and increase in RTB for Pay to Stay	4.3a, 5	308.0
Bad Debt Provision (funded from EMR)	4.3b	288.7
Social Housing Development Fund	4.3c	185.3
Repairs and Maintenance savings	4.3d	(166.4)
Management savings	4.3e	(253.0)
Community provision	4.3f	140.0
Provision for repaying borrowing	4.3g	814.2
Transformation funding	4.3h	500.0
RCCO	4.3i,8	(911.6)
Funding from EMRs in 2017/18 (provision for bad debt and R&M contracts – PPM and electrical testing)	4.3j	(1,040.1)
Inflationary uplifts	4.3k	374.2
Reduced income assumptions (supporting people contract changes and PV Income due to system sizes)	4.3l	87.9
Other minor changes		22.3
Position in Business Plan - approved by Council in July 2016 (budgeted transfer from HRA General Reserves)		**349.5**

4.3 Further details of these changes are as follows:

a) Rents were assumed to reduce by 1% for a second year in 2017/18 in line with national rent guidance. Due to the expected implementation of Pay to Stay in 2017/18, whereby tenants earning over £31,000 per year would be required to pay a higher rent, with the additional rent being paid to Government, an increase in Right to Buys was included in the Business Plan. For a three year period, RTBs were increased to 60 per year as it was expected that a number tenants would have exercised their Right to Buy when faced with an increase in rents. Further detail of rent charges are including in Section 5.

b) The HRA Business Plan has previously included a fixed term increased provision for non-payment of rents because of Welfare Reform, and in particular the introduction of Universal Credit. Universal Credit was only fully introduced in Taunton Deane in Autumn 2016, and so much of this previous provision was unused, with £433.7k put aside in an earmarked reserve in order to mitigate the loss of income when needed. The Business Plan has included a new three year period of increased provision of bad debt, allowing for an increase in non payment from 0.5% of rents to 2% for a new three year period. In 2017/18 this would be fully funded from the earmarked reserve.

c) The introduction of the Development Strategy increased the revenue provision for social housing development. The Business Plan has previously included a significant ongoing revenue contribution of £1m per year, but Development Strategy instead includes an average annual addition of 15 units, estimated at £1.9m per year. These are fully funded in the Business Plan, partly from revenue and partly from Right to Buy receipts. The revenue funding in 2017/18 is included at £1.185m, with the remaining funding from capital receipts.

d) The Business Plan includes savings totalling £832k per year on repairs and maintenance. This is based on advice on savings that should be achievable for the stock held and is separate to savings identified as part of the corporate Transformation programme. This is due to be phased over five years, and the first annual saving of £166k is included from 2017/18. The ongoing savings are not fully identified in the Business Plan and this will need to be closely monitored by the Assistant Director – Property and Development.

e) Management savings of £253k were included in the Business Plan, including savings resulting from the Terms and Conditions review, changes to the Extra Care Housing service which are expected to lead to a reduction in the subsidy provided, the removal of underutilised budgets such as some training budgets, and other central management costs. Based on current forecasts it isn't expected that these savings will have a significant impact on service delivery.

f) Permanent additional provision of £140k has been included in the Business Plan in line with the new objective of Supporting the Vulnerable. This is allocated as follows:
   - Mental Health Support, currently commissioned through Mind - £41k pa
   - Employment Support, currently commissioned through Inspired to Achieve - £46k pa
   - Money Matters Advice, currently commissioned through the Citizens Advice Bureau - £35k pa
   - Top up of Community Development budgets to £10k per area - £18k pa.

g) The Business Plan changed the policy for the repayment of debt, with provision being made over 60 years. This equates to an annual revenue provision of £1,821k, an increase of £814k on the provision included in 2016/17.

h) A one-off amount of £500k was included in 2017/18 towards the HRA share of the cost of Transformation. This has been taken into account in the Transformation Business Case.

i) Revenue Contribution to Capital Outlay (RCCO) is reduced to £nil in 2017/18 as the capital programme can be fully funded from the Major Repairs Reserve which includes the transfer of depreciation.

j) Transfers from earmarked reserves totalling £1,040k are included in the Business Plan for 2017/18. This is due to slippage in revenue maintenance programmes such as the pre-planned maintenance contract and the electrical servicing programme. Also the funding for the increased provision for bad debt.

k) Inflation of £374k is included in the Business Plan. This is the expected inflation across all expenditure including staffing costs, contracts and other expenditure.

l) Reductions in income are included for the expected decrease in Supporting People funding from Somerset County Council. Also, following the installation of photovoltaic panels on a number of houses, Feed in Tariff income of £110k is expected in 2017/18. This is lower that the budget of £160k in 2016/17 because of an imposed limit to the size of the systems by Western Power which was not known at budget setting for 2016/17.

5 Dwelling Rents for 2017/18

5.1 Dwelling rents for approximately 5,800 properties provides annual income of approximately £24m for the HRA.

5.2 The Welfare Reform and Work Act 2016 sets out a 1% reduction in social housing rents from 1st April 2016 for four years. For the first year, 2016/17, supported housing rents were exempt, but all social rents are to be included for the remaining three years.

5.3 Prior to this legislation Local Authorities had the power and duty to set their own rents. During the four year period rents must be set with at least a 1% reduction, but Members could choose to reduce rents by more than 1% if they wish. Each additional 0.5% decrease would reduce the average weekly rent for tenants by £0.42, or £21.84 per year, and decrease dwelling rent income to the HRA of £123k per year.

5.4 In line with the national rent guidance it is proposed that the average weekly rent for dwellings for 2016/17 should be set at the guideline rent of £82.52, a decrease of 1.0%, or £0.84 per week (there is a small difference due to rounding each weekly rent to the nearest penny).

5.5 On becoming vacant, dwellings continue to be relet at the Formula Rent, a national rent calculation for social housing which is designed to give fair and consistent rents across all social housing in local authority and housing association stock. Until 2015/16 increases to rent were allowed for convergence – in order to slowly bring rents in line with the national policy. From 2016/17 onwards this is no longer allowable for existing tenancies. Currently 70% of tenants have rents below the Formula Rent. Of those with rents below Formula Rent, the average difference is £1.04 per week, or 1.2%. This is equivalent to loss of income of £211k per year.

5.6 It was expected from the Housing and Planning Act that from April 2017 tenants with a household income of over £31,000 would need to pay additional rent (up to market rents, based on their income) under ‘Pay to Stay’. It was announced in November 2016 that this policy is no longer being implemented and social housing providers (both local authorities and housing associations) will continue to have discretion to charge a higher rent on tenants with a household income of over £60,000.

5.7 Any additional income raised from the Pay to Stay policy (less administration expenses) would have been repaid to Government and so this wouldn’t have directly affected the Business Plan, however it was expected that this policy would increase Right to Buys in the short term as the tenants who would have been affected by higher rents are likely to be those more able and willing to secure a mortgage. As this policy is no longer being implemented the assumption of Right to Buys has been reduced in the Business Plan from 60 per year, down to 40 for a three year period, reflecting the current level of RTBs. After this the provision for RTB returns to 30 per year. For 2017/18 this equates to expected additional rental income of £43k, which increases to £128k in 2018/19, although expected capital receipts from RTB will reduce.

5.8 Taunton Deane previously decided not to pursue increased rents for tenants earning over £60,000 per year, as the cost of administration was likely to be higher than the additional income and so no assumptions have been included in the budget.

5.9 Rent lost through void periods continue to be lower than the 2% allowed in the Business Plan. Future changes, such as the introduction of flexible tenancies, where new tenants are offered a fixed term tenancy which is renewed if appropriate (paragraph 12.7), may affect this in the future, but it is deemed appropriate to reduce the expected void rate to 1% for a two year period. This will be reviewed within future Business Plan reviews. This reduction in void rate from 2% to 1% increases the rental expectation in 2017/18 by £179.0k.

5.10 These changes give a total forecasted dwelling rent income of £24.5m.

6 Other Income

6.1 About 8.3% of HRA income, amounting to £2.2m in total, comes from non-dwelling rent (mainly garages, but also shops and land), charges for services and facilities, and contributions to HRA costs from leaseholders and others. The proposed changes to specific budget lines reflect changes recommended to Council in the Fees and Charges paper.

6.2 **Garage rents**: a 2.0% increase to £5.94, an increase of £0.12 per week for tenants, representing RPI inflation at September 2016 (last year 0.8%). An increase of 10%, or £0.86 per week, to £9.34 (including VAT) for private garage tenants and second Council tenant garages.

6.3 **Charges for services and facilities**: an increase of 2.0% (last year 0.8%). Budgets for service charges have been reset in line with the current stock, and budgets added for annual service charges to leaseholders and rechargeable repairs for current and former tenants. Charges to leaseholders will continue to be based on actual costs incurred. A one-off increase of £50k from leaseholders has been included in 2017/18 to reflect the ongoing major works on flat blocks such as fascias and soffit replacements. All works on blocks containing leaseholders undergo consultation with leaseholders before works are instructed.

6.4 **Extra Care service charges**: As previously reported, Somerset County Council is changing the way in which it procures Extra Care Housing and from April 2017 both the care and support elements will be combined in one contract. Taunton Deane Borough Council will cease to provide the Extra Care Support, although an element of Housing Related support will still be provided, and the services charges amended accordingly. This represents an increase in the housing related support element (the part which Taunton Deane will retain), although this is eligible for Housing Benefit and current self funded tenants will be protected from the increase.

6.5 Somerset County Council are due to award the contract for care and support early in 2017. If a contract is not awarded, Taunton Deane may need to continue the support it currently provides, and additional service charges would need to be approved by Council. There could also be a risk that providing this support would create a pressure to the HRA budget since the funding provided through Supporting People has previously not been enough to cover the costs.

6.6 **Contributions towards expenditure**: contributions from the General Fund to cover a share of costs in the HRA for works on estates where people have bought their homes under Right to Buy. There are approximately 4,700 privately owned homes on HRA estates compared to around 5,800 HRA stock. Those private households pay their share of HRA estate management costs, such as grounds maintenance, through their council tax and the General Fund.

6.7 **Supporting People funding**: Somerset County Council continues to purchase Supporting People services from TDBC for sheltered housing, but not for Extra Care Housing as stated in paragraphs 5.4 and 5.5.

7 Expenditure 2017/18

7.1 Below are brief descriptions of the main areas of spending with explanations of any significant changes to the currently approved Business Plan.-

7.2 **Management expenses**: These include the costs of the teams administering tenancies, collecting rents and arranging or planning maintenance work as well as a share of the Council's other relevant costs. The Business Plan included standard inflation assumptions.

7.3 Key changes for 2017/18 are:

a) Right to Buy admin contribution (from RTB capital receipts) increased by £12.5k in line with expectations

b) Share services costs - costs transferred from the General Fund for services that cover both GF and HRA such as Finance, ICT and HR are expected to be £9.5k higher than assumed in the Business Plan.

c) Apprentice levy – the HRA share of Taunton Deane's Apprenticeship Levy which is expected to be £19.3k.

d) The employers contribution towards the pension scheme is expected to rise from 13.5% of salaries, to an indicative amount of 15.4%. This, together with an increase in the defined contribution towards past service costs, would be an increase in cost for HRA staff of £206.4k. The services provided to the HRA by the General Fund (paragraph 7.3b) would also be increased because of the increase in cost to the General Fund. This is currently expected to be £36.8k. These figures are based on the current forecasts, with the final figures expected early 2017.

7.4 **Maintenance**: The total cost of maintenance for 2017/18 is expected to decrease by £17k to £6,129k. This equates to spend of around £1,060 per property.

7.5 Key points for 2017/18 are:

a) The Building Service team, which has previously been part of the DLO, is to transfer to the HRA from April 2016. The HRA accounts for approximately 89% of the work undertaken by Building Services in 2015/16, with total costs from the DLO (including grounds maintenance) totalling £4.9m. This change in treatment will allow for smoother charging, since the costs will sit directly in the HRA, rather than sitting the DLO and being recharged on a regular basis. This should make forecasting more straightforward and prevent swings in cost at the end of the year when costs are fully calculated. Any work undertaken for the General Fund will continue to be charged (from the HRA rather than the DLO), and the General Fund will be unaffected by this change.

The Building Services Team of the DLO has been restructured as part of the Property Services Team and identified as the Repairs & Maintenance Team (RMT) within Property Services. The trade operatives within the RMT totalled 92 plus 12 apprentices, with a number of these post being either filled by agency staff or left vacant to reduce costs. A new establishment for RMT operatives has been set that includes a new provision for delivering in-house electrical inspection and testing, asbestos removal services. The establishment has been set at 70 operatives and 12 apprentices, therefore reducing staffing level by 24 operatives and preventing an additional overspend of circa £750K on repairs and maintenance in the HRA.

b) Electrical testing will now be carried out by an in house team, which is now in place and cost neutral to the HRA Financial Business Plan. The testing will be programmed on an ongoing basis rather than an over a three year external contract and the budget has been amended accordingly. In the short term this is funded from earmarked reserves (which has built up over the last two financial years) and so the decrease in funding needed has been offset by a reduction in transfer from the earmarked reserve.

c) Negotiations over the future provision of gas servicing and maintenance with the Councils' current contractor 'Saltire' to take up the option of a 2 year extension proving to be unaffordable. Therefore, a business case to bring the gas servicing and maintenance in-house is being developed.

d) A one off budget of £480k has been included to assist in the provision of the achieving the savings identified in the Business Plan. Plans are already underway, for instance bringing works in house such as the electrical testing above, and in order to ensure a safe transition, and to cover any one-off costs, this fund will be made available and held in an earmarked reserve. Any remaining funds will then return to general reserves.

7.6 **Transformation**: The Business Plan includes savings of approximately £832k over a five year period, which is higher than the savings included in the Corporate Transformation Business Case. It is expected that these savings will primarily come from the ongoing transformation of Repairs and Maintenance, although the whole service will be affected by the transformation programme. The first annual saving of £166k has been found within maintenance budgets through the reorganisation of the service and the expectation that more work will be done in house.

7.7 **Rents, rates and other taxes**: insurance premiums are expected to be £30k higher than included in the Business Plan. This is based on current costs.

7.8 **Special Services**: Special services includes spend on communal areas, such as grounds maintenance and cleaning costs. It also includes Sheltered Housing and Extra Care schemes.

7.9 **Provision for bad debts**: The Business Plan increased the provision for bad debt to 2% (from 0.5%) for a period of three years. This is to mitigate the expected reduction in recovery of income due to the implementation of Universal Credit. In 2017/18 this is to be covered by a transfer from the provision for bad debt earmarked reserve.

7.10 **Depreciation**: Depreciation gets transferred to the Major Repairs Reserve (MRR) and must used to fund the capital programme or repay debt. From 2017/18 depreciation will need to be included within the HRA accounts on a component accounting basis. This means depreciation will need to be calculated on each of the major components of each house eg kitchen, bathroom, rather than being based on the Major Repairs Allowance (MRA), an estimation of the works needed to maintain the stock in good condition.

7.11 Pending full calculation of the depreciation charges and agreement of the policy with audit, an amount equivalent to MRA is included. A decrease of £100k is expected against the Business Plan. If, after full calculation, the charge decreases further, an equal amount would be included as Revenue Contribution to Capital Outlay (RCCO) in order to maintain the funding of the capital programme. Any increase in depreciation would need to come from general reserves.

7.12 **Debt Management Expenses**: bank charges and the costs of managing cash flow, borrowing and investments.

7.13 **Repayment of Borrowing and Interest**: interest and a contribution towards the repayment of the debt currently held in the HRA of £97.6m. The contribution towards the repayment of debt is due to increase to £1.8m (from £1.0m) in 2017/18, in line with the Business Plan.

7.14 The interest payable on debt is expected to be lower than the Business Plan by £435k. This is because the additional borrowing for approved schemes such as Creechbarrow Road and the Weavers Arms does not need to be externally borrowed during 2017/18. Cash reserves can be used to temporarily cover this capital expenditure, however this is only a short term arrangement and external borrowing will be needed as reserves are used for their earmarked purpose. Therefore no interest is payable until the additional amounts are externally borrowed. This does, however, reduce the amount of interest received on investments (paragraph 7.15), but to a lesser extent due to the differences in interest rates.

7.15 **Interest receivable**: based on an estimated interest rate on investments.

7.16 **Social Housing Development Fund**: the revenue contribution made towards the development programme of £1.9m. In 2017/18 some of this funding will need to be replaced by capital receipts (non Right to Buy), in order to fund the HRA's contribution towards Transformation costs as approved in the Business Case. This does not affect the funding available for development, or the revenue position of the HRA.

8 Appropriations

8.1 **Revenue Contribution to Capital Outlay (RCCO)**: – RCCO pays for capital works costing more than the available funding in the Major Repairs Reserve (MRR), including the transfer from deprecation noted in paragraph 6.10. The capital programme in 2017/18 can be fully funded from the forecasted balance in the MRR and so no budget is included for RCCO.

9 Summary of Movements in Draft 2017/18 HRA Estimates

9.1 The following table provides a summary of the main changes to the budget estimates for the HRA Revenue Account since the approval of the HRA Business Plan.

Table 2: HRA Budget 2017/18 Changes

	Reference Paragraph	£000s
Position in Business Plan (budgeted transfer from HRA General Reserves)		**349.5**
Proposals included in this report		
Deduction in rent loss from voids	4.9	(179.0)
Reduction in rent lost from Right to Buys (due to Pay to Stay)	4.7	(43.1)
Service charges	5.3	(20.4)
Garages	5.2	(13.0)
Leasehold Charges	5.3	(50.1)
RTB admin contribution	6.3a	(12.5)
R&M Transition Contingency	6.5d	480.0
Charges from GF and pension deficit (49.2k reported in GF, but most of this was included in inflationary uplift above)	6.3b	9.5
HRA share of apprentice levy	6.3c	19.3
Insurance premiums	6.7	30.6
Depreciation	6.10	(100.5)
Investment income	6.15	(10.0)
Interest payable	6.13	(435.5)
Increase in employer pension contribution		90.1
Increase in pension deficit contribution		116.3
Increase in support service charges to the HRA due to pension		36.8
Other minor changes		(25.0)
Balanced Budget for 2017/18		**243.0**

10 HRA Reserves

10.1 As set out in the HRA Business Plan the recommended minimum unearmarked reserve balance for the HRA is £1.8m (approximately £300 per property). The reserve balance as at 1 April 2016 was £2.675m, however with a number of approved changes during the year, the current balance is £2.342m. This does not include any 16/17 forecast variances, or any further supplementary estimates in 2016/17.

10.2 If the draft budget in this report is approved by Council, assuming no further changes, the balance would reduce by £0.243m, to £2,099k. This is £0.299m over the minimum reserve balance, however this balance is expected to be used in 2018/19 and the reserve will be held at the minimum recommended balance of £1.800m.

10.3 Appendix A shows the forecasted position over the medium term based on this draft budget. This is subject to transfers to or from HRA general reserves in 2016/17, and any changes.

11 Risks and Uncertainties

11.1 The HRA faces a number of risks and uncertainties, both external to the Council and internal changes.

11.2 A number of legislative changes are being implemented, as reported in HRA Estimates 2016/17 and the HRA Business Plan Review

11.3 Rent reductions (Welfare Reform and Work Act 2016) – It is not currently known what will happen with rent charges after the four year rent reduction within the Welfare Reform and Work Act 2016. The Business Plan prudently includes a CPI only rental increase (rather than the previous policy of CPI plus 1%), however it is possible that rent policy will not include inflationary uplifts after this period. Any additional reductions would further impact on Business Plan.

11.4 Universal Credit – it is not known what impact the full roll out of Universal Credit will have on the HRA. The HRA has already taken steps in order to try and prevent loss of income where possible. Tenants are now able to pay through direct debits on any day of the month (rather than only three options previously) in order to allow them to make payments on the same day as their Universal Credit payment, salary, pension or other income. There are also currently additional officers working within the One Teams such as a Welfare Reform Officer and an additional Debt and Benefit Advisor in order to support tenants affected by welfare changes. However, the impact on social housing landlords in areas where Universal Credit has already been fully implemented has been significant.

11.5 Higher Value Asset Sales (Housing and Planning Act 2016) – this is the sale of vacant social housing with the proceeds being returned to Government in order to fund the extension of Right to Buy in Housing Associations.

The regulations have not yet been published, but it is expected that an amount will be payable to Government based on the value of the housing held by Taunton Deane Borough Council. However, it is expected that it will be determined locally how this funding is raised, and therefore it will not necessarily be funded through the sale of higher value housing. The financial value is not yet known.

It has been confirmed that no payment will be due in 2017/18 (letter from Gavin Barwell MP, Minister of State for Housing and Planning, 24 November 2016), and so it is currently expected that this will commence from April 20018.

11.6 Local Housing Allowance (LHA) Rates - tenants in social housing will in future only be able to claim Housing Benefit up to the LHA rate. This is determined by the Valuation Office Agency and is based on local rents. Currently the LHA rates are only applicable for Housing Benefit claims in private rented stock. From April 2019 it has been announced that this will also apply to tenants in social housing.

In Taunton Deane this may have an impact on some of our Supported Housing residents, as the LHA rate includes service charges which are higher in Supported Housing, and single claimants under 35, who will only be eligible for the shared accommodation rate (currently £64.14 per week). Officers will continue to consider what support can be provided to individuals affected. The majority of Taunton Deane housing is within the LHA rates for the area.

11.7 Fixed term tenancies (Housing and Planning Act 2016) – Councils will be required to review tenancies every five years rather than granting a lifetime tenancy, with extensions for tenants with a disability or school age children. This is expected to be in place for April 2018 and will impact on the way in which tenancies are managed.

11.8 The HRA also faces local risks including those within the Council.

11.9 Transformation – Savings from Transformation are included within the ongoing Business Plan (paragraph 7.6). If these savings aren't found the financial position of the Business Plan will be affected.

11.10 Extra Care Housing - as reported in paragraphs 6.4 and 6.5 the Extra Care Housing service provision is being reviewed by Somerset County Council (SCC). SCC are due to award a new contract for both Care and Support. Taunton Deane is continuing to provide the Support element until the new contract is expected in March 2017. If SCC do not award a contract within the expected deadlines, Taunton Deane may need to continue to provide this support into the new financial year, which would need to be put in place by late March. Service charges for this Support service would need to be set up and approved as part of the budget setting process as they haven't been included in the Fees and Charges paper.

11.11 Gas servicing – as advised in paragraph 7.5c an in-house service is being proposed which includes mitigation measures for key risks to the Council.

11.12 Pensions – the employer's pension contributions are currently being reviewed. A forecast of the expected increase is included within this report with any variations from this would affect the position of the HRA. Final figures are expected to be received from the actuaries in early 2017.

11.13 Asbestos – significant progress has been made in implementing processes and procedures to ensure the Council meets its duties under the Control of Asbestos Regulations 2012. Detailed analysis is nearing a close which will identify the Councils short, medium and long-term financial liabilities for asbestos. The outcome will be compared with budgetary provision within the HRA Financial Business Plan and relevant earmark reserves, so as to schedule an affordable asbestos management plan.

12 HRA Borrowing

12.1 In 2012 Taunton Deane took out additional borrowing of £85.2m as part of the self financing settlement with the Government. This brought the total borrowing in the HRA up to £99.6m at the start of self financing, including £5.5m internal borrowing from the General Fund.

12.2 The external borrowing currently totals £97.6m (£2m of external borrowing has been repaid), with an additional £6.3m internal borrowing within the HRA (for approved capital schemes such as Creechbarrow Road and the Phase 1 sites. This internal borrowing is currently funded from reserves held by the HRA, but external borrowing will be required in the short term. Repayment of £2.7m will be made during 2016/17, but additional internal borrowing will be required in order to finance the ongoing schemes. The opening balance of borrowing for 2017/18 is expected to be £99.3m.

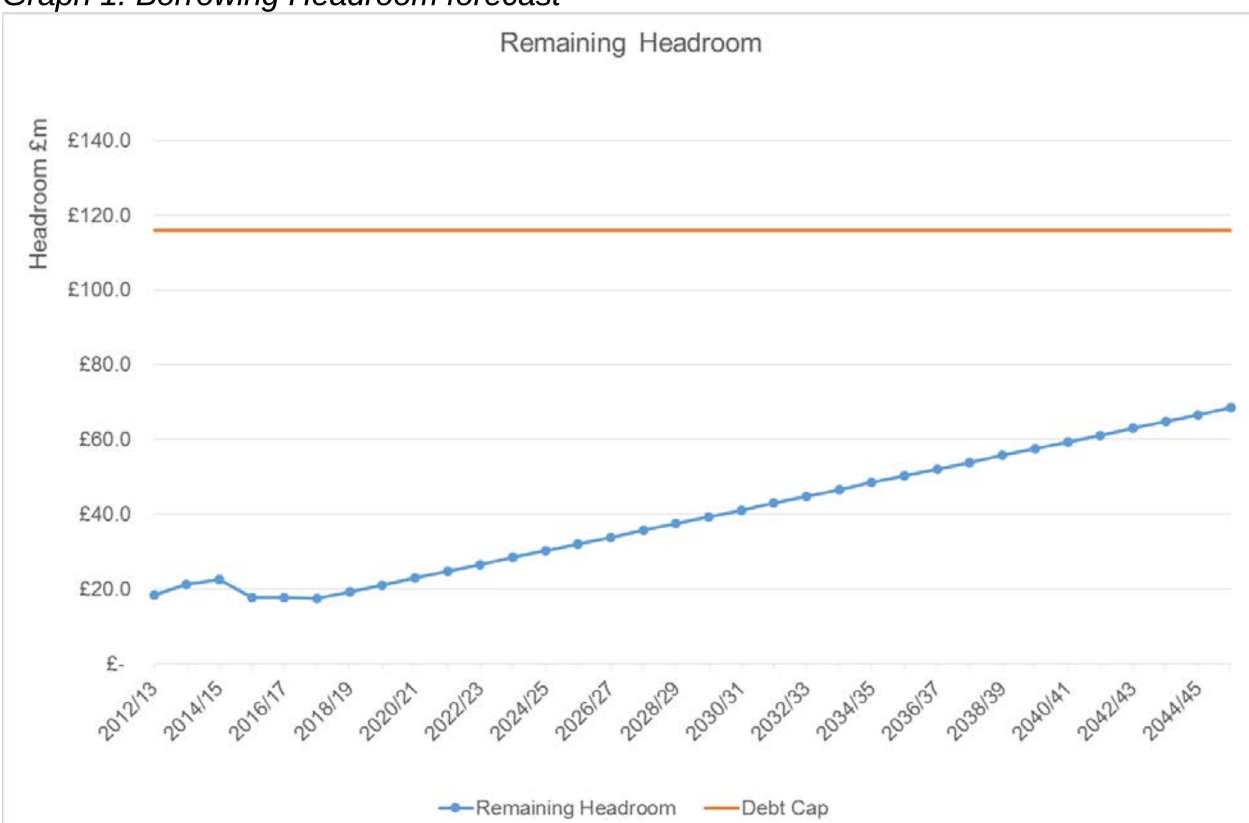
12.3 An annual provision of £1.8m for repayment of debt is included in the Business Plan, and ongoing repayments of borrowing will be made, with refinancing of loans occurring where necessary (in line with the repayment of borrowing over 60 years as approved in the Business Plan).

12.4 The headroom – the amount available to borrow up to the Government set debt cap for Taunton Deane HRA – is due to increase annually, as no additional borrowing is included within the Business Plan. Therefore the headroom is available to be allocated as new borrowing to future development schemes ie those over and above the 15 units already included in the Business Plan.

12.5 The Headroom in 2017/18 is expected to be £17.1m, and will increase annually by £1.8m (the provision made in revenue for the repayment of debt), until further borrowing is agreed by Council. The intention is for this borrowing headroom to be available for the larger regeneration schemes that can't be funded from the ongoing Social Housing Development Fund budget.

The following graph shows the current forecast for headroom over the Business Plan, but this will change as borrowing is allocated to schemes.

Graph 1: Borrowing Headroom forecast



13 **RTB Receipts**

13.1 In 2012 the maximum discounts offered to tenants who exercise their Right to Buy increased significantly to £77k (which rises with inflation). Taunton Deane signed up to retain the additional receipts, and agreed that these receipts would be used to fund new affordable housing. The additional RTB receipts can only account for 30% of the spend on new housing, with the remaining 70% coming from other funds such as revenue funding or borrowing. The RTB receipts can’t be used in the same scheme as other government funding such as Homes and Communities Agency (HCA) funding.

13.2 The full spend on new housing (the 30% RTB funding and 70% Council funding) should be spent within three years of the capital receipt, or the RTB receipt must be returned to Government with interest at 4% over base rate from the date of the receipt. Receipts can be returned in the quarter in which they are received with no interest payable.

13.3 The below table shows the capital receipts received under the new RTB discount scheme, along with how much of those receipts are deemed to be ‘Additional receipts’, ie those which can be retained and used for new housing, and the total amount that would need to be spent in order to fully retain them.

Table 3: Right to Buy receipts

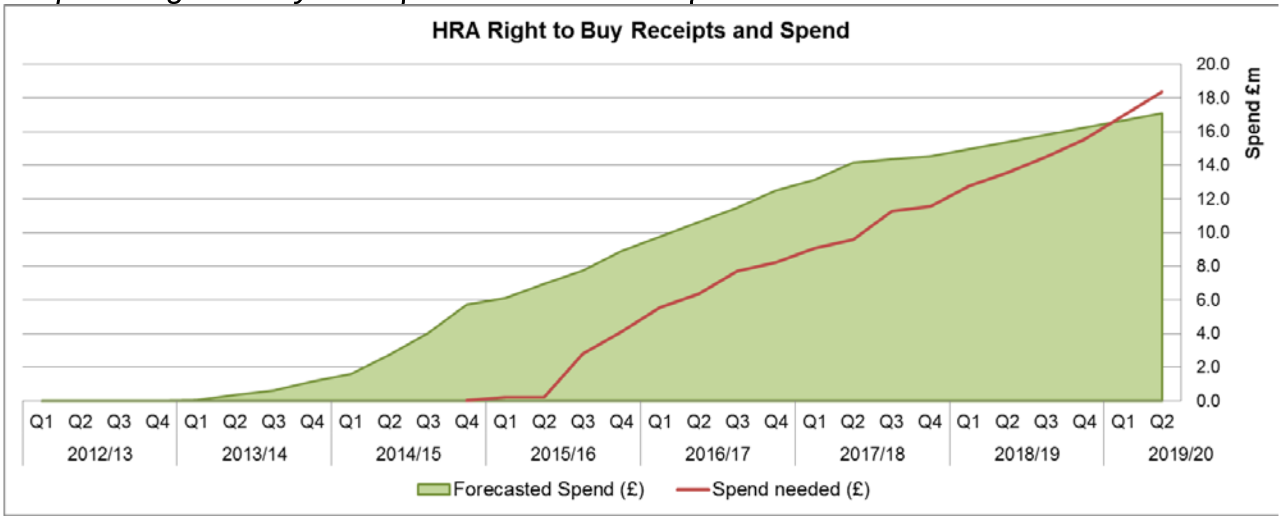
	Total 2012/13	Total 2013/14	Total 2014/15	Total 2015/16	2016/17		Total to date
					Q1	Q2	
Sales	37	47	35	38	11	10	178
Total Capital Receipts (£k)	2,330.4	2,704.6	2,316.6	2,665.6	863.6	841.6	11,722.4
Additional (1-4-1) Receipts (£k)	1,233.7	1,230.5	1,004.9	1,192.7	421.4	423.0	5,506.1
Spend Required (£k)	4,112.4	4,101.5	3,349.6	3,975.6	1,404.5	1,410.0	18,353.6

13.4 The receipts received up to 2015/16 have been fully allocated to existing schemes, such as Creechbarrow Road, the Phase 1 sites, Buybacks, and Weavers Arms.

13.5 The additional receipts received in Q1 and Q2 2016/17 total £844k, which would require total spend of £2.8m within three years. If this level continues it can be expected that the annual total spend (including RTB receipts and match funding) would need to be in the region of £5.6m. Although the provision for the Social Housing Development Fund has been increased in the Business Plan, the annual total budget is £1.9m, an annual shortfall of £3.7m. The latest forecast shows that forecasted spend will not be enough to meet the match funding requirements in 2019/20. This is based only on currently approved budgets (including the ongoing provision of £1.9m), and doesn’t include any new schemes funding through borrowing. It is possible to borrow for additional schemes, within the borrowing headroom in Section 11, but many schemes may not be able to repay the capital and interest costs from the rental income. This would create a net revenue cost to the HRA which would impact the Business Plan.

13.6 The below graph shows the current forecasted spend, together with the spend needed in order to retain the RTB receipts, and shows that in 2019/20 the forecasted spend doesn't meet the spend needed.

Graph 2: Right to Buy Receipts and forecasted spend



13.7 It should be noted that the new housing doesn't need to be provided by the Council. The 30% RTB funding could also be used by Housing Associations in the area, providing they meet the same match funding requirements. The Housing Enabling and Development Manager has started talking informally with local Housing Associations to establish whether this is something that they would be interested in.

13.8 Options to consider:
- Increase spend through borrowing – limited to debt cap
- Increase spend from revenue – would lead to reduced service provision as revenue is allocated within the Business Plan
- Use other Council funding
- Give grant funding to Housing Association/s – providing they match 70% of the funding
- Return funding to Government

13.9 The requirement for the funding to be spent within three years does mean that there is flexibility to allocate funding after the capital receipts are retained. However development schemes are likely to have large lead in times and so receipts should be allocated as soon as possible to reduce the risk of having to repay the capital receipt to Government with interest payments.

14 2017/18 Draft Housing Revenue Account Capital Programme

14.1 The proposed Draft HRA Capital Programme 2017/18 totals £9.31m. This is provided to deliver the prioritised capital investment requirements included in the current Business Plan for the next budget year. The current 5-Year HRA Capital Programme is shown below, which includes forecast capital expenditure requirements for the period 2017/18 to 2021/22, as identified in the Business Plan.

14.2 This report does not include schemes that have been previously approved where the spending is planned to be incurred in 2017/18.

Table 4: Draft HRA Capital Programme 2017/18

Project	**Total Cost £k**
Major Works	6,222
Related Assets	80
Exceptional Extensive Works	482
Disabled Facilities Grants and Aids and Adaptations	416
Building Services Vehicles	121
Social Housing Development Fund	1,989
Total Proposed HRA Capital Programme 2017/18	**9,310**

14.3 Members are being asked to approve the Capital Maintenance and Improvement Works Programme budget for 2017/18 at £9.310m.

14.4 It is proposed that the HRA capital programme for 2017/18 shown above is funded from the Major Repairs Reserve (from depreciation), revenue contribution (RCCO) from the Social Housing Development Fund, and capital receipts (Right to Buy).

14.5 A summary of the estimated funding available before the funding of the 2017/18 capital programme is shown in the table below:

Table 5: Funding Estimates

General Fund	**2017/18 £k**
Major Repairs Reserve	7,321
Social Housing Development Fund (RCCO)	1,185
Capital Receipts	804
TOTAL Funding	**9,310**

Major Works

14.6 This line in the capital programme covers a number of areas of spend. The council is required to maintain decent homes standards ensuring items are replaced as and when needed.

14.7 The detail used to make up the budget is shown in the table below and this is what the budget line is expected to be spent on. This is subject to change depending on factors such as contractor availability, and any changes to the profile of spend will be agreed with the Director for the service.

Table 6: Major Works

Project	Total Cost £
Kitchens	500,000
Bathrooms	720,000
Roofing	200,000
Windows	200,000
Heating Systems	2,120,000
Doors	500,000
Fire Safety Work	200,000
Fascias and Soffits	880,000
Heat Pumps	490,000
Door Entry Systems	272,000
Insulation	80,000
Ventilation	60,000
Total	**6,222,000**

14.8 Major Works includes the following:

- Kitchens: This is for the replacement of kitchens as and when required.
- Bathrooms: This is for the replacement of bathrooms as and when required.
- Roofs: Roofs are replaced as and when required.
- Windows: This project is to replace the oldest double glazed windows.
- Heating Systems: The replacement and upgrade of boilers and heating systems.
- Doors: This project replaces doors for better energy conservation and security issues.
- Fascias, Soffits and Rainwater Goods: This is for replacement where necessary.
- Fire Safety Works in Communal Areas: This is to fund works identified on the TDBC action plan following the fire in the communal area of a block of flats. The action plan was accepted by the Fire Service.
- Door Entry Systems: This is for the installation of door entry systems in all blocks of flats.
- Insulation: The upgrade of insulation, for example cavity wall insulation in dwellings.
- Ventilation: Improvement of ventilation in dwellings

Related Assets

14.9 This line in the capital programme is for work to non-dwelling assets such as garages, unadopted areas, meeting halls and sewage treatment works.

Table 7: Related Assets

Project	Total Cost £
Meeting Halls	10,000
Garages	30,000
Sewerage Treatment Works	20,000
Unadopted Areas	20,000
Total	**80,000**

Exceptional/Extensive Works

14.10 This project is for works such as asbestos removal and subsidence works to the Council's non-traditional properties. A budget of £482,000 is included in the 2017/18 programme for asbestos removal.

Disabled Facilities and Aids and Adaptations

14.11 This is an annual recurring budget for small and large scale home aids and adaptations in tenants' homes where there are mobility issues. This budget is demand led by requests from tenants or through recommendations by occupational therapists or other healthcare professionals. Applications are made through the Somerset West Private Sector Housing Partnership.

14.12 The demand for adaptations has been historically lower than budget and provision was made in the Business Plan for a phased reduction from £0.435m to £0.300m over a five year period. This will be done line with a number of steps being taken, such as moving towards more cost effective installations of wet floor shower rooms through a new fixed price contract; switching from concrete ramps to better value metal modular ramps; and a move toward stairlift loans and recycling, rather than purchases. These measures will ensure that the service stays within reduced budgets without impacting tenants.

Building Services Vehicles

14.13 The transfer of Building Services from the DLO to the HRA means that the HRA will need to hold a budget for any new/replacement vehicles needed. This will be funded from depreciation within Building Services, which has previously been included within the hourly rate to the HRA, and so does not increase the net cost to the HRA.

Social Housing Development Fund

14.14 The budget for the Social Housing Development Fund is for new development/redevelopment of housing. This budget increased to £1.95m in 2016/17 in the Business Plan and represents an ongoing programme averaging 15 units a year. For 2017/18 this is increased to £1.989m

15 Draft 5-Year Capital Programme

15.1 The draft 5-year capital programme is included for information and is shown in the table below.

Table 8: Draft 5-Year Capital Programme

	2017/18 £k	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	5-Year Total £k
Capital Programme	9,310	9,407	9,566	9,698	7,615	45,596

APPENDIX A

HRA Draft Budget 2017/18 and MTFP

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Target Budget	Draft Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget
Income						
Dwelling rents	(24,614)	(24,450)	(24,142)	(23,691)	(24,093)	(24,524)
Non dwelling rents	(600)	(617)	(628)	(641)	(653)	(666)
Service charges	(1,005)	(1,138)	(1,108)	(1,127)	(1,149)	(1,170)
Other income	(549)	(462)	(391)	(320)	(326)	(332)
Total Income	(26,768)	(26,667)	(26,269)	(25,779)	(26,221)	(26,692)
Expenditure						
Repairs and maintenance	6,146	6,193	5,663	5,612	5,366	5,110
Management	6,092	6,774	6,186	6,068	6,199	6,332
Rents and rates	384	373	386	400	414	429
Special management	1,419	1,288	1,197	1,143	1,168	1,194
Provision for bad debt	223	507	502	493	125	128
Debt Management Expenses	8	8	9	9	9	9
Depreciation	6,725	6,715	6,771	6,772	6,747	6,732
Total Expenditure	20,997	21,858	20,714	20,497	20,028	19,934
Other Expenditure						
Contribution to CDC	215	225	229	234	238	243
Revenue Contribution to Capital Outlay	983	-	-	-	477	677
Interest Payable	3,011	2,742	2,745	3,065	2,995	3,075
Investment Income	(88)	(70)	(60)	(60)	(60)	(60)
Social Housing Development Fund	1,000	1,185	1,170	1,170	1,200	1,220
Provision for repayment of debt	1,007	1,821	1,821	1,821	1,821	1,821
Transfers to/(from) earmarked reserves	(24)	(851)	(272)	(727)	(478)	(218)
Transfers to/(from) HRA general reserves	(333)	(243)	(78)	(221)	-	-
Total Other	5,771	4,809	5,555	5,282	6,193	6,758
Balanced Budget	0	0	0	0	0	0

HRA General Reserves	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Opening Balance	2,675	2,342	2,099	2,021	1,800	1,800
Transfers to/from reserves	(333)	(243)	(78)	(221)	-	-
Closing Balance	2,342	2,099	2,021	1,800	1,800	1,800