

Taunton Deane Borough Council

Executive – 4 February 2016

Draft Housing Revenue Account (HRA) Estimates 2016/2017

Report of the Finance Manager

(This matter is the responsibility of the Leader of the Council, Councillor John Williams)

IMPORTANT NOTICE FOR MEMBERS

In order for this item to be debated in the most efficient manner at the Executive meeting, Members are requested to contact the named officers at the end of this report in advance of the meeting with queries regarding points of detail or requests for further supporting information.

1 Executive Summary

This report presents the Executive's 2016/17 Budget for the Housing Revenue Account (HRA) for recommendation to Full Council for approval on 23 February 2016.

The Budget was previously presented to Members at Corporate Scrutiny on 21 January 2016.

Changes in national policy announced in 2015 have greatly affected the long term financial position of the HRA, and a fundamental review of the HRA Business Plan is underway. Income forecasts over the term of the Business Plan have reduced dramatically, meaning current forecast spending is unsustainable.

The proposed **average rent for dwellings in 2016/17 is £83.06 per week**. This represents a **decrease of 1.0% or £0.84 per week**, which is in line with the amended national rent policy.

The proposals included within this report would enable the Council to set a balanced budget for 2016/17, with the ongoing position to be addressed within the Business Plan Review.

2 Background

- 2.1 The purpose of this report is for the Executive to consider and finalise its Draft Housing Revenue Account Budget proposals for 2016/17, for recommendation to Full Council on 23 February 2016.
- 2.2 2016/17 will be the fifth year of operating the HRA under self-financing. Members will be aware that the Council took on self-financing debt of £85.2m in March 2012.
- 2.3 A fundamental review of the HRA Business Plan was scheduled for 2015/16, and to support this funding was made available from 2014/15 underspends. Changes in national policy announced in 2015 have greatly affected the long term financial position of the HRA Business Plan, making this review essential.
- 2.4 A summary of the proposed legislation affecting the HRA that has been announced in 2015:

Welfare Reform and Work Bill

- Reduction in Social Housing Rents - Social housing rents will be reduced by 1% each year up to 2020
- Further Welfare Reforms

Housing and Planning Bill

- A Right to Buy for housing association tenants
- Duty to consider selling vacant high value local authority housing – Local authorities will be expected to sell vacant 'high value' housing and transfer the funds to the Secretary of State
- Pay to stay - higher rents for social tenants with household income of over £30,000 per year with additional income transferred to the Secretary of State

Spending Review and Autumn Statement 2015

- Housing Benefit in social housing capped to Local Housing Allowance Rates

- 2.5 A summary of the overall Draft HRA Budget 2016/17 is included in Appendix A.

3 Dwelling Rent Levels for 2015/16

- 3.1 Dwelling rents for approximately 5,800 properties currently provides annual income of over £24m for the HRA.
- 3.2 The Welfare Reform and Work Bill sets out a 1% annual reduction in all social rents from 1st April 2016 for 4 years. This negates the 10 year national rent policy for social housing that was implemented in April 2015, and greatly reduces the income expectations for the HRA. The 10 year rent policy included annual increases in dwelling rents of the Consumer Price Index (CPI) plus 1%.

- 3.3 There has been no confirmation that rents will be different than the policy of CPI +1% after the four year rent reduction. However the more prudent expectation that they will reduce to increasing by CPI only is also being modelled. Below is a table showing the annual reduction in rent for the next five years, when compared to the Business Plan.

Table 1: Reduction in Dwelling Rent Income Compared to the Business Plan

	Reduction in Rent Income Compared to Business Plan				
	2016/17	2017/18	2018/19	2019/20	2020/21
Impact of lower inflation (-0.1%)	439,900	459,000	472,400	487,000	501,800
Additional impact of change in social housing rent policy:					
If rent policy returns to CPI + 1% from 2020/21 to end of 10 year Rent Policy	461,100	1,465,500	2,480,000	3,510,100	3,609,200
If rent policy returns to CPI only from 2020/21	461,100	1,465,500	2,480,000	3,510,100	3,845,600

- 3.4 When forecasted over the length of the Business Plan, this reduction in rent represents a significant reduction in income to the HRA.

Table 2: Cumulative Reduction in Dwelling Rent Income Compared to the Business Plan

	Cumulative Totals		
	5 Years (to 2020/21)	To end of current 30 Yr Business Plan 26 Years (to 2041/42)	Full 30 Yrs (to 2045/46)
If rent policy returns to CPI + 1% from 2020/21 to end of 10 year Rent Policy	13,886,000	124,124,200	150,455,400
If rent policy returns to CPI only from 2020/21	14,122,400	154,054,000	187,811,300

- 3.5 Inflation is currently lower than the 1.7% assumption used in the current Business Plan and so this figure would not have been fully achieved under the previous rent policy. CPI in September 2015 (the month used for rent increases) was -0.1%. This would have led to rent increases of 0.9% (CPI of -0.1% plus 1%) for 2016/17, which would have increased rent dwelling income by £461k.
- 3.6 Local Authorities have previously had the power and duty to set their own rents, however the Welfare Reform and Work Bill no longer allows for rents to be above a 1% reduction. This will be enforced through Chapter 6 and 7 of Part 2 of the Housing and Regeneration Act 2008.

3.7 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 £83.06, a decrease of 1.0% or £0.84 per week.**

3.8 The rents for 2016/17 calculated from the formulae are:

		2015/16	2016/17	% increase
Average rent	<i>Rent as per Rent Guidelines (with uplift of CPI+1% from 2015/16)</i>	£83.90	£83.06	-1.0%
Rent under old rent system (without convergence)	<i>With uplift of CPI+1 %</i>		£84.66	0.9%
Proposed average weekly rent			£83.06	-1.0%
Total decrease over previous year £p			-£0.84	
Total decrease over previous year %			-1.0%	

3.9 Housing Rent income budget estimates have also been rebased, reflecting the number of dwellings lost through Right to Buy and development has also been rebased, with a net reduction in numbers. This has reduced the rental income expected in 2016/17 by £97k in 2016/17. The rental income is expected to increase as the 60 dwellings at Creechbarrow Road are handed over, however losses through Right to Buy will continue.

3.10 The level of rent lost through void properties is set in the Business Plan at 2% of total rent due. The rate currently being experienced is much lower than this (currently just under 1%). Adjusting this figure in 2016/17 (for one year only) increases the rental income budget by £158k.

3.11 In total the expectation in dwelling rent income has reduced by £840k, as can be seen in the table below:

	£k	£k
Rental Income As Per Business Plan		25,470.9
Impact of lower inflation	(439.9)	
Change in rent policy to -1.0%	(461.1)	
Change in dwelling numbers	(97.0)	
Change in budgeted void level	158.0	
		(840.0)
Updated Rental Income		24,630.9

4 Other Income

4.1 Around 8.1% of HRA income, or some £2.15m in total, comes from non-dwelling rents (mainly garages but also shops, hostels and community centres), charges for services and facilities, and contributions to HRA costs from leaseholders and others. The proposed changes to specific budget lines, reflecting changes approved by Full Council in December 2015, are:

4.2 **Non Dwelling Rents:** a 0.8% increase, standard inflation (RPI) amount as at

September 2015 (last year 2.3%).

- 4.3 **Charges for Services and Facilities:** a 0.8% increase (last year 2.3%). 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.
- 4.4 **Sheltered Housing Service Charges:** a separate review of Sheltered Housing has been undertaken, and service charges set at a flat rate of £10.93 for 2016/17. This represents no increase on the average charge for 2015/16, with all existing tenants being protected on their current rates should their individual rates increase.
- 4.5 Following the approval that tenants in receipt of Housing Benefit with a Piper Lifeline will be subsidised by the HRA, a reduction in income of £151.8k is expected.
- 4.6 **Contributions towards expenditure:** from the General Fund to cover a share of costs in the HRA for work done on estates where people have bought their homes under Right to Buy. (There are approximately 4,000 privately-owned homes on HRA estates, compared to around 5,800 total HRA stock; those private households pay their share of HRA estate-management costs through their council tax and the General Fund.)
- 4.7 **PV Income:** following the installation of photovoltaic panels on a number of houses, Feed In Tariff income of £160k is expected in 2016/17.
- 4.8 Somerset County Council continues to purchase Supporting People services from a range of providers including TDBC.

5 Expenditure

- 5.1 Below are brief descriptions of the main areas of spending with explanations of any significant changes to the currently approved Business Plan.
- 5.2 **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 corporate inflation assumptions. Key points for 2016/17 are:
- a) Shared service 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 £67k lower than in 2015/16. This includes an increase in contribution towards past service pension costs.
 - b) The inclusion of £150k relating to costs associated with a range of projects within the housing service. These result from both changes in Government policy, and other areas where we have identified the requirement to improve our service. These costs will be incurred for a period of

approximately two years. Key projects include:

- Improving our statutory compliance arrangements in areas such as asbestos management and fire safety
- Improving asset management arrangements in preparation for the need to dispose of assets in line with Government policy to fund the extension of Right to Buy via disposal of Council property
- Action plan to respond to the most recent Tenant and Leaseholder satisfaction survey results showing a downward trend in satisfaction.

5.3 **Maintenance:** The cost for 2016/17 is expected to decrease by £170k. This equates to spend of around £1,090 per property, based on the service's best estimate of work that can be carried out. Key points for 2016/17 are:

- a) The Pre-Planned Maintenance (PPM) contract is expected to be £300k lower than the estimate in the Business Plan. However, this could vary depending on the amount of works needed.
- b) The amount of asbestos works currently funded within Specialist Works is expected to be higher than currently budgeted due to more tests being carried out. This is expected to last a number of years.
- c) Heating works have been reduced in line with current forecasts.
- d) The amount put aside to cover the cost of works up to the insurance excess (£250k), is being reduced from £100k to £50k. The average amount over the last three years is £43k and there is an earmarked reserve should any larger works be needed.
- e) General Maintenance has been increased by £158k for one year only. This is funded from the one-off increase in rental income, due to a reduction in void loss (paragraph 3.10).

5.4 **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. There is an increase in budget for Sheltered Housing in 2016/17 relating to the new service provision, and the new way in which Supporting People funding is to be used. This was taken into account with the Sheltered Housing Service Charges report.

5.5 **Provision for bad debts:** The Business Plan includes a planned three year rise in the provision for non-payment of rents and other charges - from 0.5% of rental income to 2%. This is due to expectations of higher rates of bad debt relating to Welfare Reform. The three year period ends at Q3 2016/17, with three quarters of the year at 2% and one quarter of the year at 0.5%. Therefore the overall provision reduces from £515k 2015/16 to £415k in 2016/17.

5.6 **Depreciation:** cash reserved in the Major Repairs Allowance (MRA), increased in line with expected national accounting rules and used towards £6.72m capital work that maintains housing stock in good condition.

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

- 5.8 **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 £1m in 2016/17, in line with the Business Plan.
- 5.9 The interest payable on debt is expected to be lower than the Business Plan by £213k. This is because the additional borrowing for approved schemes such as Creechbarrow Road and the Phase 1 sites does not need to be externally borrowed during 2016/17. 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 is currently expected to be in 2017/18 and so this saving relates to 2016/17 only. This does, however, reduce the amount of interest received on investments (paragraph 4.9), but to a lesser extent due to the differences in interest rates.
- 5.10 **Interest receivable:** is based on an estimated interest rate on investments.
- 5.11 **Social Housing Development Fund:** is the revenue contribution made towards developments such as Creechbarrow Road and Weavers Arms. It remains at £1.0m in 2016/17.

6 Appropriations

- 6.1 **Transfers to General Fund:** This was previously the estimated procurement savings being achieved within the HRA through the Southwest One procurement team and recorded through the Benefits Tracking System (BTS). The cost of the Transformation Project has now been fully funded and any ongoing procurement savings will be retained by the HRA. This represents a one-off saving of £177k in 2016/17 compared to the Business Plan.
- 6.2 **Revenue Contribution to Capital (RCCO):** RCCO pays for capital work costing more than the £6.72m Major Repairs Allowance (MRA) noted in paragraph 5.6 above and the £1m Social Housing Development Fund allocation. The Draft Capital Programme is £8.589m for 2016/17, which includes £0.86m investment proposed to be funded from RCCO.
- 6.3 If the proposals in paragraph 7.3 are not approved, this would increase the RCCO cost by £0.125m.

7 Summary of Movements in Draft 2016/17 HRA Budget Estimates

- 7.1 As reported in the December Consultation Pack the estimated budget gap for 2016/17 was £386k.
- 7.2 The following table provides a summary of the main changes to draft budget estimates for the HRA Revenue Account, including the proposals to deliver a balanced budget in 2016/17.

Budget Area	Reference Paragraph	£k
Balanced Budget for 2016/17 in Business Plan		0
Dwelling rents	3	998
Piper Lifeline (as agreed at Full Council 15/12/2015)	4.4	152
Specialist works	5.3	67
Pre-Planned Maintenance	5.3	(300)
Responsive heating	5.3	(100)
Self-Insurance Fund	5.3	(50)
Interest payable	5.8	(213)
Procurement Savings	6.1	(177)
Shared Services Costs	5.2	(67)
Housing Service improvement projects	5.2	150
Other minor changes		(74)
Budget Gap as Reported in the December Consultation Pack		386
Reduction in dwelling void loss assumptions	3.10	(158)
General maintenance	5.3	158
Updated Budget Gap		386
Proposals for achieving a balanced budget in 2016/17		
RCCO - Related Assets 2016/17		(125)
Use of earmarked reserves from reduced RCCO for Related Assets in 2015/16		(24)
Provision for bad debt		(192)
Creechbarrow Hub running costs		(35)
Transfer Removal Grants		(10)
Balanced Budget for 2016/17		0

7.3 An overview of the proposals is as follows:

- Related Assets 2016/17 – Reduce RCCO by £125k by removing capital programme for Related Assets (garages, meeting halls, unadopted areas and sewage treatment works). There are currently no planned programmes for 16/17. Works would resume in 2017/18.
- Related Assets 2015/16 – Reduce RCCO by £24k by ceasing non urgent capital works on Related Assets in 2015/16, and earmarking this underspend to providing funding for the revenue budget in 2016/17.
- Provision for bad debt - The Business Plan allows for an increased provision for non-payment of rental income for a three year period due to Welfare Reform. This three year period is due to end in 2016/17. Universal Credit is now being rolled out across the Borough, but this is likely to take some time. Therefore the remaining provision would be made available over a three year period to better represent the expected impact on the HRA.
- Creechbarrow Hub - The Business Plan had allowed for the Hub to be in place in 2016/17, however it is not likely to be open until later in the year. Therefore savings will be made on the running expenses and salary of the

Hub Manager post.

- Transfer Removal Grants - Transfer Removal Grants (TRGs) are paid to tenants to incentivise downsizing to a smaller property. The budget was increased to £60k as part of the Welfare Reform measures, however it is expected that demand will at a lower level going forward.

8 HRA Reserves

- 8.1 As set out in the HRA Business Plan the recommended minimum unearmarked reserve balance for the HRA is £1.8m (approx £300 per property). The reserve balance as at 1 April 2015 was £3.484m, however with a number of approved changes during the year, the current balance is £2.458m. This does not include any 15/16 forecast overspends, or any further supplementary estimates in 2015/16. If the proposals in 7.2 are approved there are no budgeted transfers to or from this balance in 2016/17.

9 Corporate Scrutiny Comments

- 9.1 Corporate Scrutiny Committee considered the draft 2016/17 HRA Budget at its meeting on 21 January 2016. There are no formal comments or recommendations provided for the Executive to consider in finalising its budget proposals.

10 Finance Comments

- 10.1 This is a finance report and there are no additional comments.

11 Legal Comments

- 11.1 Local housing authorities are required by Section 74 of the Local Government and Housing Act 1989 (the "1989 Act") to keep a Housing Revenue Account (HRA) unless the Secretary of State has consented to their not doing so. The account must show income and expenditure coming from the Council's activities as landlord under Part II of the Housing Act 1985. Section 75 of the 1989 Act sets out an obligation for the HRA to show the major elements of housing revenue expenditure – maintenance, administration, and contributions to capital costs – and how these are met by rents, subsidy and other income.
- 11.2 The Local Government and Housing Act 1989 'ringfenced' the HRA: local authorities can only include items in the HRA for which there is statutory provision, and transfers of income and expenditure between the HRA and the General Fund are only allowed in very specific circumstances. In essence, rents cannot be subsidised by transfers from the General Fund, and Council Tax cannot be subsidised by transfers from the HRA.
- 11.3 The reform of council house financing is taking place under authority of Part 7 Chapter 3 of the Localism Act 2011 (November 2011).

12 Links to Corporate Aims

- 12.1 The draft budget proposals for 2016/17 have been prepared in line with the current HRA Business Plan. The Housing Revenue Account is directly linked to the Affordable Housing corporate aim.

13 Environmental and Community Safety Implications

- 13.1 Environmental and community safety implications have been considered in arriving at the draft budget proposals.

14 Equalities Impact

- 14.1 A full Equalities Impact Assessment was included with the approved HRA Business Plan, upon which this budget is based.
- 14.2 The proposed rent increase will apply to all tenants and as such no potential discrimination amongst the protected groups has been identified.
- 14.3 To help support tenants on low incomes Housing Services will continue to provide a number of initiatives to enable them to manage their finances and maximise their income:
- Publish clear information on rent which helps tenants to manage their own finances;
 - Signpost tenants to a relevant benefit agency to help ensure they are maximising their income to meet their living costs;
 - Take action to raise the awareness of accessing a range of welfare benefits; and
 - Provide the opportunity to access direct support in checking they are in receipt of the welfare benefits they are entitled to claim.

15 Risk Management

- 15.1 The risks associated with the proposed budget have been considered, with a detailed risk analysis being undertaken through the update of the HRA Business Plan.

16 Partnership Implications

- 16.1 None for the purposes of this report.

17 Recommendation

- 17.1 The Executive recommends to Full Council the approval of the average rent decrease of 1.0% for 2016/17 in line with the Council's approved Rent Policy.
- 17.2 The Executive recommends to Full Council the approval of the Housing Revenue Account Budget 2016/17.

Background Papers

Executive 15 December 2015 – Fees and Charges 2016/17

Corporate Scrutiny 21 January 2016 – Draft Housing Revenue Account (HRA)

Estimates 2016/17

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PROPOSED HOUSING REVENUE ACCOUNT 2016/17

	2015/16 Budget £k	2016/17 Estimate £k	2017/18 Estimate £k	2018/19 Estimate £k	2019/20 Estimate £k	2020/21 Estimate £k
Income						
Dwelling Rents	(24,933)	(24,631)	(24,266)	(23,988)	(23,714)	(24,094)
Non Dwelling Rents	(589)	(600)	(612)	(624)	(636)	(648)
Charges for services/facilities	(1,008)	(1,005)	(877)	(896)	(916)	(937)
Other Income	(402)	(549)	(517)	(447)	(377)	(384)
TOTAL INCOME	(26,932)	(26,785)	(26,272)	(25,955)	(25,643)	(26,063)
Expenditure						
Maintenance	6,652	6,382	6,537	6,660	6,130	6,043
Management	6,742	5,942	6,652	6,176	6,339	6,454
Rents, Rates, Taxes and Other Charges	310	535	551	568	585	603
Special Services	987	1,215	1,241	1,147	1,090	1,114
Increase In Provision for Bad Debt	515	223	222	220	124	126
Capital Charges Depreciation	6,746	6,725	6,701	6,676	6,677	6,652
Debt Management Expenses	8	8	9	9	9	9
TOTAL EXPENDITURE	21,960	21,030	21,913	21,456	20,954	21,001
NET COST OF SERVICES (Surplus)	(4,972)	(5,755)	(4,359)	(4,499)	(4,689)	(5,062)
Other Costs and Income						
Provision for Repayment of Borrowing	893	1,007	0	1,628	3,500	3,500
Interest Costs	2,960	3,011	3,223	3,163	3,110	3,202
Interest Income	(51)	(80)	(60)	(60)	(60)	(60)
Capital Charges Credit (Contra Depreciation)	(6,746)	(6,725)	(6,701)	(6,676)	(6,677)	(6,652)
Appropriations						
Transfer to General Fund	323	0	0	0	0	0
Revenue Contribution to Capital (RCCO)	873	841	1,172	1,339	1,482	1,637
Transfer to Major Repairs Reserve	6,746	6,725	6,701	6,676	6,677	6,652
Social Housing Development Fund	1,000	1,000	1,000	1,000	1,000	1,000
Transfers from General Reserves	(1,026)	0	0	0	0	0
Transfers from Earmarked Reserves	0	(24)	(632)	(699)	(509)	(260)
SURPLUS) / DEFICIT	0	0	344	1,872	3,834	3,957