

Taunton Deane Borough Council

Council Meeting - 23 February 2017

Part I

To deal with written questions to, and receive recommendations to the Council from, the Executive.

(i) Councillor Williams

(a) Draft Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy 2017/2018

At its most recent meeting, the Executive considered the recommended strategy for managing the Council's cash resources including the approach to borrowing and investments. Approval was also sought for the Treasury Management Strategy Statement and Investment Strategy (TMSS), the Annual Investment Strategy (AIS) and the Minimum Revenue Provision (MRP) Policy.

The TMSS and related policies have been prepared taking into account the 2011 revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the Code") and the Department of Communities and Local Government's Guidance on Local Government Investments ("the Guidance").

The key principles of the Code are as follows:-

- Ensuring that public bodies put in place the necessary framework to ensure the effective management and control of treasury management activities;
- That the framework clearly states that responsibility for treasury management lies clearly within the organisation and that the Strategy clearly states the appetite for risk;
- That value for money and suitable performance measures are reflected in the framework.

The Council's Finance Officers have worked closely with Arlingclose, the Council's Treasury Advisor, to consider the requirements of the Code and Guidance and determine the proposed TMSS, AIS and MRP Policy that ensure compliance and provide a set of 'rules' for the Council to follow in dealing with investments, borrowing and cash flow management.

The TMSS for 2017/2018 continues to recognise the increasing risks due to the new regulations in respect of 'bail in' for banks. In response to this risk and the wider continuing risks in the financial sector, the TMSS continues to build in greater

“diversification” – so that surplus funds are held in a wider range of investments/accounts.

The proposed MRP continues the policy approved by the Council for 2016/2017, with an addition to set out a policy in respect of capital loans provided to third parties. This takes into account the recent decision to make a further loan to the Somerset Waste Partnership for the purchase of new collection vehicles. For such loans it is proposed to link MRP to the life of the asset(s) for which a loan is provided.

In the circumstances, it is **recommended** that Full Council approve:-

- (1) The Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Reserve Provision Policy as set out in the Appendix to the report considered by the Executive; and
- (2) The Prudential Indicators included within the Treasury Management Strategy Statement which includes limits for borrowing and investments.

(b) General Fund Revenue Estimates 2017/2018

(These recommendations need to be read in conjunction with the report submitted to the Executive on 9 February 2017 which includes all the details of the proposed General Fund Budget to reflect the proposed Council Tax increase.)

The Executive has considered its final 2017/2018 budget proposals which recognises the continuing financial challenges, with annual reductions in Government funding for Local Council services as the Government seeks to reduce the national deficit.

The 2017/2018 Budget has been prepared within the context of priorities identified by Members which are embedded in the Council’s Corporate Plan.

The budget contains details on:-

- (i) the General Fund Revenue Budget proposals for 2017/2018, including a proposed Council Tax increase; and
- (ii) draft figures on the predicted financial position of the Council for subsequent years.

The Corporate Scrutiny Committee considered the draft budget proposals at its meeting on 26 January 2017. Although no specific recommendations were made by the Committee, a number of comments were made by Members details of which were submitted for the information of the Executive.

Details of the Provisional “Settlement Funding Assessment” for 2017/2018 was announced by the Department of Communities and Local Government in late December 2016 with the Final “Settlement Funding Assessment” due to be announced imminently.

Unusually this year there is the prospect of the Council approving its Annual Budget

prior to the Government announcing the Final Settlement. If this is known before this Council meeting a verbal update and related updated recommendations will be provided at the meeting. If the Final Settlement has not been received by 23 February, 2017 Full Council is advised to set the 2017/2018 based on Provisional Settlement information.

Subsequently, any material changes in the Final Settlement will be notified promptly to all Councillors, and any further resulting recommendations will be subject to the budget decision process in line with the Scheme of Delegation and Financial Regulations.

The grant funding from the Government is in line with the confirmed multi-year settlement (2016/2017 to 2019/2020), with the expected reduction in 2017/2018 as shown below – a 46% reduction in General Revenue Grant funding:-

General Government Grant

	2016/17 £	2017/18 £	Change £	
Revenue Support Grant (RSG)	1,235,137	644,801	-590,336	-48%
Rural Services Delivery Grant (RSDG)	27,582	22,271	-5,311	-19%
Transition Grant	16,930	16,864	-66	0
Total General Revenue Grant Funding	1,279,649	683,936	-595,713	-46%

The multi-year settlement includes further reductions in subsequent years. The following table summarises how these grants, together with the Business Rates Baseline (BR Baseline) have and are projected to reduce since 2013/2014.

The headline reduction in the Settlement funding position is -14.5% from 2016/2017 to 2017/2018.

Settlement Funding

	13/14 £k	14/15 £k	15/16 £k	16/17 £k	17/18 £k	18/19 £k	19/20 £k
RSG	3,556	2,766	1,911	1,235	645	280	0
RSDG	0	0	5	28	22	17	22
Transition Grant	0	0	0	17	17	0	0
BR Baseline	2,366	2,412	2,458	2,478	2,529	2,578	2,605
Government Settlement	5,922	5,178	4,374	3,758	3,213	2,675	2,627

The budget proposals took into account Business Rates Retention where funding had increased by £78,892 in 2017/2018 compared to the last financial year, possible new proposals for the implementation of “100% Business Rates Retention” and the New Homes Bonus (NHB).

With regard to the latter, the provisional NHB Grant for 2017/2018 is £4,034,732, which is £151,421 or 3.9% more than 2016/2017, and £674,549 more than our December estimate which is good news for our growth aspirations funding but unfortunate in terms of the unexpected growth top slice.

The Government had consulted on proposed changes to the funding methodology for NHB, and despite positive housing growth which was higher than previously forecast for budget purposes, a new baseline of 0.4% growth has been introduced

from 2017/2018 which has effectively acted as a top-slice so that the Council only receives grant for growth above 0.4%. In addition the Government has now confirmed that the rolling up of grants has reduced from six to five years in 2017/2018 and then reduces further to four years from 2018/2019. The previous Medium Term Financial Plan (MTFP) forecasts had been prepared on this basis.

Despite the reduction in the level of “reward” for housing growth, the growth trajectory indicates that funding through NHB should remain considerable.

The proposed budget for Taunton Deane contains a proposed Council Tax increase of 3.47% of the basic Council Tax element (£5 on a Band D) for 2017/2018 which will mean that the Band D Council Tax will rise to £149.62 per year. This figure again includes the sum of £1.74 in respect of the Somerset Rivers Authority because it is still unable to raise its own precept. The Band D taxpayer will, therefore, receive all the services provided by the Council in 2017/2018 at a cost of £2.87 per week.

The previous MTFP estimates assumed the Special Expenses Rate (SER) would be subject to a 1.99% increase in 2017/2018.

The Executive is minded to increase the Special Expenses (Unparished Area) precept by 2p on a Band D property, raising an additional £300 whilst still remaining within the £5 Band D referendum trigger level.

The Special Expenses income raised through Council Tax in 2016/2017 is £43,360 which is a Band D Equivalent charge per year of £2.98. In addition, the Unparished Area Budget has received a Council Tax Support (CTS) Grant of £4,020 in 2016/2017 giving a total budget of £47,380.

However, Full Council has previously agreed to reduce the grant funding provided to towns and parishes by 1/3rd in 2016/2017; 1/3rd in 2017/2018 and therefore the CTS grant is expected to be phased out by 2018/2019. Therefore, the proposed budget for 2017/2018 is £46,911.

The 2017/2018 Budget Gap as presented to the Corporate Scrutiny Committee on 8 December 2016 was £403,000. The Provisional Settlement and some other material changes to budget estimates – not least those relating to Pension deficit recovery lump sum increases and Pension contribution rate increases – have significantly increased the Budget Gap to £859,000 in January 2017.

This gap has now been closed as a result of the approved new Fees and Charges, the proposed Council Tax increase, the various savings options, the NHB, the Business Rates Retention and the transfer of funds from the Business Rates Smoothing Reserve. The following table provides a summary of the Budget position for 2017/2018:-

Revenue Budget 2017/2018

	Budget 2016/17 £	Estimates 2017/18 £
Total Spending on TDBC Services	9,931,503	11,786,444
Somerset Rivers Authority Contribution	67,987	71,067
Revenue Contribution to Capital	482,500	401,500
Capital Debt Repayment Provision (MRP)	180,060	235,060

	Budget 2016/17 £	Estimates 2017/18 £
Interest Costs	0	0
Interest Income	-314,000	-380,875
Parish Precepts	640,320	640,316
Grants to Parishes for CTS	25,980	12,990
Special Expenses	43,360	44,901
Grants to Unparished Area	4,020	2,010
Transfers to/from Earmarked Reserves	3,334,152	1,868,242
Transfer to/from General Reserves	0	0
AUTHORITY EXPENDITURE	14,395,882	14,681,655
Retained Business Rates	-2,959,304	-3,038,286
Revenue Support Grant	-1,235,137	-644,801
Rural Services Delivery Grant	-27,582	-22,271
Transition	-16,930	-16,864
New Homes Bonus	-3,883,310	-4,034,730
Surplus(-)/Deficit on Collection Fund – Council Tax	-130,890	-166,957
Surplus(-)/Deficit on Collection Fund – Business Rates	191,668	38,425
Demand on Collection Fund – Parishes and SER	-683,680	-685,217
Expenditure to be financed by Council Tax	5,582,730	6,039,887
Council Tax raised to fund SRA Contribution	67,987	71,067
Total Council Tax Raised by TDBC	5,650,717	6,110,954
Divided by Council Tax Base	39,072.9	40,843.2
Council Tax @ Band D – Taunton Deane Services	142.88	147.88
Council Tax @ Band D – Somerset Rivers Authority	1.74	1.74
Council Tax @ Band D – TDBC including SRA	144.62	149.62
Cost per week per Band D equivalent	2.77	2.87

It is a requirement for the Council to prepare not only budgets for the following financial year but to also provide indicative figures into future years. The MTFP provides an indication of the expected budget gap going forward into 2017/2018 and beyond and a summary of this position is reflected in the following table:-

Revised MTFP Summary as at 9 February 2017

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
Services Costs	9,931,503	11,786,444	9,815,874	9,626,814	10,027,695	10,501,781
Net Financing Costs	348,560	255,685	576,680	574,790	572,900	571,010
SRA Contribution	67,987	71,067	0	0	0	0
Special Expenses	43,360	44,901	44,901	44,901	44,901	44,901
CTRS Grants	30,000	15,000	0	0	0	0
Earmarked Reserves-Growth	3,491,331	3,642,752	3,087,363	2,924,490	3,279,861	3,055,236
Earmarked Reserves-Other	-157,179	-1,774,510	52,717	52,720	52,719	52,724
General Reserves	0	0	0	0	0	0
Net Expenditure	13,755,562	14,041,339	13,577,535	13,223,715	13,978,076	14,225,652
Retained Business Rates	-2,959,304	-3,038,286	-3,100,622	-3,012,141	-3,050,613	-3,089,465
Business Rates prior year surplus/deficit	191,668	38,425	0	0	0	0
Revenue Support Grant	-1,235,137	-644,801	-279,788	0	0	0

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
Rural Services Delivery Grant	-27,582	-22,271	-17,132	-22,271	-22,271	-22,271
Transitional Grant	-16,930	-16,864	0	0	0	0
New Homes Bonus	-3,883,310	-4,034,730	-3,479,340	-3,316,470	-3,671,840	-3,447,220
Council Tax–TDBC	-5,582,730	-6,039,887	-6,267,772	-6,456,373	-6,650,655	-6,850,746
Council Tax–SRA	-67,987	-71,067	0	0	0	0
Council Tax – Special Expenses	-43,360	-44,901	-44,901	-44,901	-44,901	-44,901
Council Tax prior year surplus/deficit	-130,890	-166,957	0	0	0	0
Net Funding	13,755,562	14,041,339	13,189,555	12,852,156	13,440,280	13,454,603
Budget Gap	0	0	387,980	371,559	537,796	771,049
Budget Gap Increase	0	0	387,980	-16,421	166,237	233,253

The significant pressures leading to the Gap in 2018/2019 are:-

- £387,000 reduction in General Revenue Support funding;
- One-off use of £144,000 Business Rate Retention Smoothing Reserve in 2017/2018 to mitigate volatility in Business Rates funding, collection fund deficit and to balance the budget;
- One-off use of £50,000 earmarked reserves to fund CCTV costs in 2017/2018;
- One-off Council Tax Collection Fund Surplus of £167,000 in 2017/2018;
- £383,000 estimated inflation pressures on pay and contracts; and
- £360,000 phased maintenance costs for The Deane House, mitigated by £355,000 following the decision to fully refurbish the property and to rent space to the Police.

The MTFP position above already includes the projected savings arising through the implementation of the Transformation Business Case. Without these savings the forecast budget gap would be even greater - £2,031,000 per year by 2021/2022.

The General Fund budget includes the trading surplus of £101,000 providing a contribution to the net income for the Council. Any additional surplus will be transferred to the Deane DLO Trading Reserve.

The forecast reserves position of Deane DLO for 2017/2018 remains positive, and provides some resilience to volatility in trading performance and future investment needs.

The draft budget for the Deane Helpline Trading Account had assumed an increase in fees to private customers from £4.99 per week to £5.40 per week and the charge to the Housing Revenue Account (HRA) for Taunton Deane Tenants is increased by £0.06 to £4.49 per week. This was approved by Full Council in December 2016 and, subsequently amended, reduced the budget gap in 2017/2018 by £26,439.

Following the emergence of the increased costs in respect of the Pension Fund Deficit contribution and annual employer contribution increases, the Deane Helpline have revised their fees to reflect this and mitigate the effect on the budget gap. Council is recommended to approve revised fees for private paying customers of

£5.86 per week and the charge to the HRA for Taunton Deane tenants of £4.80 per week.

With regard to General Reserves, the current reserves position is above the recommended minimum (£1,600,000), at £1,913,000. The mid-year forecast for the 2016/2017 budget is a projected underspend of £271,000, which would increase the balance at the year end to £2,184,000, however this is not certain at this stage.

General Reserves Balance 31 March 2017

	£
Balance Brought Forward 1 April 2016	2,113,085
Supplementary Budget – Transformation Implementation	-200,000
Current Budgeted Balance	1,913,085
2016/17 Projected Outturn Variance – Mid-Year Forecast	271,000
Projected Balance 31 March 2017	2,184,085
Recommended Minimum Balance	1,600,000
Projected Balance above recommended minimum	584,085

The Council's Section 151 Officer has a duty to comment, as part of the budget setting process on the robustness of the budget and the adequacy of reserves. In her response, Shirlene Adam has stated that she believes the Council's reserves to be adequate and the budget estimates used in preparing the 2016/2017 budget to be robust.

It is therefore **recommended** that the General Fund Revenue Budget for 2017/2018 be agreed and that Full Council:-

- (a) Notes the forecast Medium Term Financial Plan and Reserves position, and notes the Section 151 Officer's Robustness Statement as set out in Appendix A of the report considered by the Executive;
- (b) Approve the General Fund Net Revenue Budget 2017/2018 subject to any amendments required as a result of the Final Funding Settlement if received in advance of this meeting, or should the Final Settlement not be received, then based on the Provisional Settlement;
- (c) Approve a Council Tax increase of 3.47% (on the non-SRA element), increasing the Band D tax rate by £5 to £149.62 per year. This comprises £147.88 for services and £1.74 on behalf of the Somerset Rivers Authority;
- (d) Approve an increase to the Special Expenses Precept of 0.7% increasing the Band D rate from £2.98 to £3.00; and
- (e) Approve revised Deane Helpline fees with effect from 1 April 2017 for private paying customers of £5.86 per week and the charge to the Housing Revenue Account for Taunton Deane tenants of £4.80 per week, to mitigate increased pension-related costs. This amounts to an additional £27,000 income for the Deane Helpline Trading Account.

(c) Capital Programme Budget Estimates 2017/2018

(These recommendations need to be read in conjunction with the report submitted to the Executive on 9 February 2017 which includes all the details of the proposed Capital Programme.)

The Executive has also considered the proposed General Fund (GF) and Housing Revenue Account (HRA) Capital Programmes for 2017/2018.

2017/2018 General Fund Capital Programme

The current General Fund Capital Programme in 2016/2017 includes approved projects totalling £11,192,000.

The current capital strategy includes the following basis for prioritising schemes:-

- 1) Business Continuity (corporate/organisational/health and safety);
- 2) Statutory Service Investment (to get statutory minimum/contractual/continuity);
- 3) Growth / Transformation;
- 4) Invest to Save; and
- 5) Other.

The recommended General Fund Capital Programme for 2017/2018 totals £13,750,000 split between Deane DLO Schemes, General Fund Schemes and Growth Schemes.

Funding for capital investment by the Council can come from a variety of sources including:-

- Capital Receipts;
- Grant Funding;
- Capital Contributions (for example from another Local Authority or Section 106 Agreement funding);
- Revenue budgets/reserves (often referred as RCCO – Revenue Contributions to Capital Outlay); and
- Borrowing.

All of the schemes in the Capital Programme can be fully funded through a combination of revenue contributions (DLO and General), capital reserves plus grant funding provided via Somerset County Council. As a result, the Capital Programme which incorporates all of the reported bids is supported by the Executive.

Capital Programme for Growth and Regeneration 2017/2018

In December 2015 the Council approved an allocation £16,600,000 of New Homes Bonus (NHB) funding over the five year period 2016/2017 to 2020/2021, to support its priorities relating to growth and regeneration. A number of 'spend categories' were approved, as follows:-

- Taunton Strategic Flood Alleviation (£3,000,000);
- Major Transport Schemes (£2,500,000);
- Town Centre Regeneration (£2,500,000);
- Employment site enabling and promoting enterprise and innovation (£4,000,000);

- Marketing, promotion and inward investment (£500,000);
- Supporting urban extension delivery (£4,000,000); and
- Preparation of Local Development Orders (£100,000).

At the time it was acknowledged that the profile of spending over the five year period was indicative and would need to be refreshed annually, to ensure that spending plans remained aligned with an evolving picture of external funding secured, opportunities for new funding and new growth priorities.

Having now carried out the above mentioned annual review, a refreshed annual profile of spending on growth is proposed as follows:-

- **Major Transport Schemes** – The overall allocation has increased from £2,500,000 to £3,500,000 mainly due to the need to provide match funding towards major transport improvements at Junction 25 (where major Local Enterprise Partnership funding has been approved) and the Toneway Corridor;
- **Town Centre Regeneration** – The allocation has increased from £2,500,000 to £3,500,000 to enable the delivery of major Town Centre schemes, such as Firepool and Coal Orchard;
- **Employment sites, enterprise and innovation** – No change to the overall allocation (£4,000,000) but a change in profile to reflect the likely spend requirement; and
- **Supporting Urban Extension delivery** – The overall allocation has reduced from £4,000,000 to £2,000,000 due to increased ability to use alternative funding sources such as the Community Infrastructure Levy (CIL), Capacity Funding and planning performance agreements to support delivery.

Following the refresh of the NHB funding forecast (taking account of the proposals within the Provisional Settlement 2017/2018) and housing planning trajectory, there is a projected funding shortfall of £396,000 over the five year period of the plan. This shortfall is considerably less than previous forecasts.

Work on a number of potential options is taking place though to maintain, and potentially increase, the overall funding commitment to delivering growth through a number of sources in addition to NHB, such as:-

- Capacity funding from the Government, where large scale developments (such as urban extensions) may be eligible for support;
- Planning performance agreements and planning fee income; and
- The CIL.

2017/2018 Housing Revenue Account (HRA) Capital Programme

The HRA Capital Programme 2017/2018 totals £9,360,000 and is shown in the table below. This is provided to deliver the prioritised capital investment requirements included in the current Business Plan for the next budget year.

Draft HRA Capital Programme 2017/2018

Project	Total Cost £k
Major Works	6,222
Related Assets	80
Improvements	50
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	9,360

The current five-year HRA Capital Programme includes forecast capital expenditure requirements for the period 2017/2018 to 2021/2022, as identified in the Business Plan.

The programme will be funded from the Major Repairs Reserve (from depreciation), revenue contribution (RCCO), the Social Housing Development Fund and capital receipts (Right to Buy).

The Capital Programme Budget Estimates 2017/2018 were presented to the Corporate Scrutiny Committee on 26 January 2017 for review and comment. No specific amendments to the Budget were formally recommended by the Committee.

Recommended that:-

- (a) The new capital schemes of the General Fund Capital Programme Budget of £13,749,816 for 2017/2018 be approved;
- (b) Authority be delegated to the Section 151 Officer to approve adjustments to the 2017/2018 Disabled Facilities Grant Capital Budget to reflect the final grant funding received from the Better Care Fund; and
- (c) The new capital schemes of the Housing Revenue Account Capital Programme of £9,360,000 for 2017/2018 be approved.

(ii) Councillor Terry Beale

Housing Revenue Account Estimates 2017/2018

(These recommendations need to be read in conjunction with the report submitted to the Executive on 9 February 2017 which includes all the details of the proposed Housing Revenue Account Budget.)

The Executive has given consideration to the proposed Housing Revenue Account (HRA) estimates for the 2017/2018 Financial Year.

In 2012 Taunton Deane moved away from a national subsidy system to be 'self-financing'. As part of the self-financing agreement, a one-off payment of £85,120,000

was made to the 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 £99,700,000.

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 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 a full review of the Business Plan was undertaken in 2016. The draft estimates for 2017/2018 therefore reflect the amendments approved in the Business Plan.

Business Plan Review 2016

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

This included a number of changes which affected the base budget for 2017/2018. The key amendments are summarised below:-

2017/2018 Changes in Approved Business Plan

	£k
<u>Impact in 2017/2018 of key changes within the Business Plan</u>	
Starting position - balanced budget	0.0
Rents - rent reduction and increase in RTB for Pay to Stay	308.0
Bad Debt Provision (funded from EMR)	288.7
Social Housing Development Fund	185.3
Repairs and Maintenance savings	-166.4
Management savings	-253.0
Community provision	140.0
Provision for repaying borrowing	814.2
Transformation funding	500.0
RCCO	-911.6
Funding from EMRs in 2017/2018 (provision for bad debt and Revenue and Maintenance contracts – Pre-planned Maintenance and electrical testing)	-1,040.1
Inflationary uplifts	374.2
Reduced income assumptions (supporting people contract changes and PV Income due to system sizes)	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

Dwelling rents for approximately 5,800 properties provides annual income of approximately £24,000,000 for the HRA.

The Welfare Reform and Work Act 2016 sets out a 1% reduction in social housing rents from 1 April 2016 for four years. For the first year, 2016/2017, supported housing rents were exempt, but all social rents are to be included for the remaining

three years.

During the four year period, rents must be set with at least a 1% reduction. However, 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 by £123,000 per year.

In line with the national rent guidance, the Executive proposes that the average weekly rent for dwellings for 2017/2018 should be set at the guideline rent of £82.52, a decrease of 1.0%, or £0.84 per week.

On becoming vacant, dwellings continue to be re-let 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 2015/2016 increases to rent were allowed for convergence – in order to slowly bring rents in line with the national policy. From 2016/2017 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 £211,000 per year.

Following the Government deciding not to proceed with its 'Pay to Stay' policy, where tenants with a significant household income would be required to pay additional rent, the assumption as to an increase in Right to Buys (RTBs) 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. For 2017/2018 this equates to expected additional rental income of £43,000, which increases to £128,000 in 2018/2019, although expected capital receipts from RTB will reduce.

Rent lost through void periods continues to be lower than the 2% allowed in the Business Plan. As such, it is deemed appropriate to reduce the expected void rate to 1% for a two year period increasing the rental expectation in 2017/2018 by £179,000.

These changes give a total forecasted dwelling rent income of £24,500,000.

About 8.3% of HRA income, amounting to £2,200,000 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 agreed by Full Council in the Fees and Charges report on 13 December 2016.

The main areas of spending planned for the 2017/2018 financial year included:-

- Management expenses;
- Maintenance;
- Transformation;
- Rents, rates and other taxes;
- Special services;
- Provision for bad debts;
- Depreciation;
- Debt Management Expenses;
- Repayment of Borrowing and Interest;

- Interest receivable; and
- Social Housing Development Fund.

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.

HRA Budget 2017/2018 Changes

	£000s
Position in Business Plan (budgeted transfer from HRA General Reserves)	349.5
Proposals included in this report	
Deduction in rent loss from voids	-179.0
Reduction in rent lost from Right to Buys (due to Pay to Stay)	-43.1
Service charges	-20.4
Garages	-13.0
Leasehold Charges	-50.1
RTB admin contribution	-12.5
R&M Transition Contingency	480.0
Charges from GF and pension deficit (49.2k reported in GF, but most of this was included in inflationary uplift above)	9.5
HRA share of apprentice levy	19.3
Insurance premiums	30.6
Depreciation	-100.5
Investment income	-10.0
Interest payable	-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

The HRA Business Plan recommended that the minimum unearmarked reserve balance for the HRA should be £1,800,000. The reserve balance as at 1 April 2016 was £2,675,000, however with a number of approved changes during the year, the current balance is £2,342,000. This does not include any 2016/2017 forecast variances, or any further supplementary estimates in 2016/2017.

If the HRA budget is approved by Council, the balance would reduce by £243,000, to £2,099,000.

With regard to RTB receipts, the Council had agreed that these receipts would be used to fund new affordable housing. The additional RTB receipts can only account for 30% of spend on new housing, with the remaining 70% coming from other funds such as revenue funding or borrowing.

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.

The additional receipts received in the first two quarters of 2016/2017 total £844,000, which would require total spend of £2,800,000 within three years. If this level continues it can be expected that the annual total spend would need to be in the region of £5,600,000.

Although the provision for the Social Housing Development Fund has been increased in the Business Plan, the annual total budget is £1,900,000, an annual shortfall of £3,700,000. The latest forecast shows that forecasted spend will not be enough to meet the match funding requirements in 2019/2020.

The options that need to be considered are:-

- Increase spend through borrowing – limited to the debt cap;
- Increase spend from revenue – which would lead to reduced service provision as revenue is allocated within the Business Plan;
- Use other Council funding;
- Give grant funding to Housing Associations – providing they match 70% of the funding; or
- Return funding to Government.

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.

The Draft Housing Revenue Account Budget was presented to the Corporate Scrutiny Committee on 26 January 2017 for review and comment. Although no specific amendments to the Draft Budget were formally recommended by the Committee, the main comments raised by Members were considered by the Executive.

The Tenant Services Management Board has also considered the proposed HRA Budget.

Recommended that:-

- (a) The proposed rent decrease of 1%, with proposed average rents of £82.52 per week in 2017/2018 be approved; and
- (b) The Housing Revenue Account Budget for 2017/2018 be also approved.