Agenda Item No. 6

EXECUTIVE - 1 FEBRUARY 2018

HOUSING REVENUE ACCOUNT BUDGETS 2018-19

Executive Summary

The Housing Revenue Account (HRA) Estimates for 2018/19 are presented for recommendation to Council.

Social landlords are required to reduce housing rents by 1% a year for four years from 2016/17. This is a move away from the former guidance of increasing rents by CPI + 1%. 2018/19 will be the third year of this four year period and this 1% reduction requirement has been incorporated into the 2018/19 budget. As discussed later in the report the Government have announced this rent reduction period will end in 2020 and rent increases will return to CPI + 1%.

The working balance per property is forecast to be £150 at 31 March 2019. £100-£150 balance per property is considered to be necessary for prudent financial management.

Reasons for Decision

To recommend that the Council approves the resources necessary to implement its objectives and to enable the Council to determine charges to tenants for 2018/19.

Recommendations

The Executive is requested to:

RECOMMEND to Council That

i) the Housing Revenue Account budget for 2018/19 as set out in Appendix 1 to the report be approved; and

ii) with effect from 2 April 2018, rents be increased by 4% for Shared Ownership properties and be reduced by 1% for all other tenancies.

The recommendations above will need to be dealt with by way of a recommendation to the Council.

Background Papers:

None.

Sustainability Impact Assessment
Equalities Impact Assessment

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1.0 Introduction

1.1 This paper sets out the Council's draft Housing Revenue Account (HRA) budgets (Appendix 1) for 2018/19.

1.1 Detailed explanations of the changes and pressures within the different elements of the budget are set out in the sections below. As detailed later in the report, rents are proposed to be increased by 4% for Shared Ownership properties and reduced by 1% for all other tenancies. The budgeted surplus for the year is £45,700, and a working balance per property of £150 is maintained. The balance per property is at the top end of the range of £100 to £150 per property considered prudent.

1.2 Included in the Budget is a £1,120,000 revenue contribution to capital outlay which can be invested in affordable housing, including carrying out improvements to the stock to bring it towards the decent homes standard.

1.0 Forecast Outturn

1.1 Adjustments to the revised estimates for 2017/18 have been made to reflect variations as reported in the October Green Book.

1.2 A £41,000 under spend is forecast on the responsive repairs budget. Capital investment in the stock over recent years has allowed repairs\enhancements to be carried out on a planned rather than reactive basis. A review of the schedule of rates applied under the contract has also contributed to this under spend. Responsive repairs expenditure can be seasonal and may increase due to factors such as damage from storms over the winter period.

1.3 A reduction on the management costs under the NVH contract has been offered on the basis the contract is extended. It is estimated this will create a saving of £21,000.

1.4 These savings will offset expenditure on additional works under the NVH Asset Management Plan in 2017/18.

2.0 Approach to Budget Setting 2018/19

<u>Assumptions</u>

2.1 The draft budgets in this paper should be considered alongside the draft Investment Programme report elsewhere on the agenda which includes the Housing Investment Programme and will influence the overall budget position.

<u>Management and Administration</u>

2.2 Salary and other central costs have been allocated to the HRA in accordance with normal accounting rules to show the full cost of the service. The budgets are presented and monitored in a pre-allocated format to make it possible to see the overall impact rather than just a proportion of the overall cost/variance which may be allocated to an individual service.

2.3 A review of the basis for these allocations has been undertaken for the 2018/19 budget. This review has led to an estimated £415,000 reduction in management and administration costs allocated to the HRA from £3,119,000 in 2017/18 to £2,704,000 in 2018/19.

3.0 Rents and Other Charges

3.1 In May 2014 the DCLG published amended guidance on rents for social housing from April 2015. This guidance recommended annual rent increases of CPI + 1% and the Government indicated this rent policy would apply for ten years from 2015/16. However the Welfare Reform and Work Act prescribed that rents in social housing be reduced by 1% a year for four years resulting in a 12% reduction in average rents by 2020-21. We will be entering into the third year of this four year period and rents will be reduced by 1% with effect from 2nd April 2018. Applying the 1% reduction results in an estimated average weekly rent of £101.99.

3.2 This reduction is particularly punitive to Woking's HRA as the actual weekly rents at the start of the rent reduction period were £1.97 lower than the limit rent set by the DCLG. This meant Woking previously had the flexibility to increase rents by a further £346,000.

3.3 On the 4th October 2017, the Department For Communities And Local Government (DCLG) and the Prime Minister's Office, announced that social housing rents will be increased by Consumer Price Index (CPI) plus 1% for 5 years from 2020. This provides assurance that the duration of the 1% rent reduction period will only be four years as originally envisaged. Rent increases will then return to the level prescribed prior the rent reduction. However these will still be less than those calculated under the self-financing settlement under which the Council was required to pay the Government £98 million to buy itself out of the housing subsidy system.

<u>Recovery Of Charges</u>

3.4 Service charges, including energy charges, are based on the cost of the service being provided. Council resolved on 10 December 2009 that authority be delegated to the Chief Finance Officer to vary service charges in line with external factors.

3.5 The service charge was un-pooled from rent in April 2003 and was calculated on the points framework used in setting the rent prior to the change. Under the former Housing Subsidy System Local Authorities were limited in how much they could increase the charge to reflect the actual cost of the service being provided. Over time the service charge income has therefore become unaligned with expenditure and the HRA has been under recovering its costs.

3.6 New Vision Homes has undertaken a review of the service charge for 2018/19. The review proposes to move away from the historic allocation method to calculating the charge on a more accurate per block basis using the latest information available. It is also proposed to align the total charge with the cost of running the service.

3.7 Approximately 1,900 HRA tenants pay a service charge. As this is a change to the existing method of allocating costs, and some of the historic inconsistencies with charge are being resolved, there may be large fluctuations in the charges levied to individual tenants. The tables below summarise these estimated movements:

	Old Charge (£)	Proposed Charge (£)
Average Charge	6.05	6.54
Maximum Charge	10.32	15.38

Movement In Charge	No. Of Tenants
Zero Change or Reduction	516
Increases of up to £3 per week	961
Increases between £3.00 to £5.99 per week	397
Increases between £6.00 to £8.99 per week	24
Increases between £9.00 to £10.50 per week	3
Total	1,901

3.8 Up to this point any under recovery will have been subsidised by other tenant's rent. Although this review proposes that 1,385 tenants would see an increase in their service charge, tenants are benefiting from a 4 year rent reduction period making the increase in charge more affordable. The elements within the service charge are also eligible for Housing Benefit. Nevertheless it is proposed that increases in the charge of are phased in over a 4 year period on the following basis:

• Zero change or reduction	1 Year	(516 or 27.14% of tenants)
• Increases between £0.01 - £1.00 per week	1 Year	(244 or 12.84% of tenants)
• Increases between £1.01 - £2.00 per week	2 years	(458 or 24.09% of tenants)
• Increases between £2.01 - £3.00 per week	3 Years	(259 or 13.62% of tenants)
• Increases over £3.00 per week	4 Years	(424 or 22.30% of tenants)

3.9 The methodology used to allocate the costs to the individual block charges is complex and officers need to validate the proposed service charge model. Under the new arrangements tenants will be recharged on the same basis as Leaseholders. It is therefore proposed that officers carry out further validation of the model with a view to implementing the changes with effect from 1st August 2018 in line with the annual increase of leaseholder charges (and therefore avoiding the need to carry out 2 reviews each year).

3.10 Included in this review are properties within the red line of the Sheerwater Regeneration area. A further review of the service charge will therefore be required when the regeneration project commences.

3.11 The review has been carried out using the most up to date data available. However the current Grounds Maintenance Contract is output based and therefore a current schedule of works carried out on HRA land is not available. A schedule used to identify industry standards for the grounds maintenance (GM) service in 2005 has been used as the basis to allocate GM costs

3.12 For the purposes of setting the 2018/19 budget an uplift of 3% (the September CPI) has been applied to the existing service charge income levels. Therefore any benefit from this review has not been incorporated into the budget.

3.13 Energy charges are levied on a per block basis based on cost. This allows energy costs to be recharged to tenants on a more detailed basis. Energy charges will be reviewed to incorporate fluctuations in energy prices.

<u>Implementation Date</u>

3.14 The new rents will be applied from the first Monday in April i.e. 2 April 2018.

4.0 Prudential Borrowing

4.1 HRA interest charges for pre 2016/17 borrowing are fixed at the Council's average borrowing rate at 31 March 2016. From 2017/18 HRA borrowing is charged at the annual average 50 year borrowing rate. This ensures that General Fund investment decisions made by the Council do not impact the HRA.

4.2 HRA interest costs are forecast to be £4,719,494 in 2017/18 and £4,825,683 in 2018/19. These costs include the borrowing taken on to acquire new dwellings as detailed in section 6.5 of this report. £7,481,000 additional borrowing is forecast over 2017/18 and 2018/19.

5.0 Robustness of the Budget and Risks

It is important to consider the robustness of the budget and the adequacy of reserves for the purpose of maintaining the financial health of the Housing Revenue Account. The key risks are set out in the following paragraphs.

<u>Welfare Reform</u>

5.1 The Welfare Reform Bill received Royal Assent on the 8 March 2012 and represents the biggest change to the welfare system for over 50 years. Key features of the act threaten to significantly increase the risk of bad debt within the HRA. The benefit cap, introduced under the act, was reduced from 7 November 2016 placing further pressure on tenant's household income. No increase in the bad debt provision has been built into the draft budget but income collection will be closely monitored by WBC Officers with New Vision Homes.

<u>Housing and Planning Act</u>

5.2 This Act enables the Secretary of State to require local housing authorities to make a payment to the government equivalent to the market value of a proportion of the high value vacant housing owned by the authority. The provisions place a duty on local housing authorities to consider selling high value council housing and are intended to encourage the more efficient use of local authority housing stock. In effect the legislation allows the government to charge a fixed levy on councils each year based on an estimate of the expected income local authorities would receive from the sale of empty high value stock.

5.3 The Secretary of State for Housing, Communities, and Local Government has indicated that there will be no higher-value asset payment before at least April 2019. Therefore no provision is required in the 2018/19 Budget for this levy but it remains a risk to future income streams over the 30 year HRA Business Plan.

Welfare Reform and Work Act

5.4 The Welfare Reform and Work Act requires rents to be reduced by 1% per annum between 2016/17 to 2019/20. Total rental income in 2018/19 is estimated to be £179,262 lower than would have been charged if rents had been frozen at 2017/18 levels. At the start of the rent reduction period it was estimated that the rental income over the 4 year period will be £5,605,000 less than would have been received under the CPI + 1% rent increase guidance, and, £103m will be lost in total over the 30 year HRA business plan period.

5.5 When the DCLG published amended guidance on rents for social housing in May 2014 they stated they were offering Social landlords long-term certainty as the social rent policy would apply for a ten year period. The move away from this policy for four years has a significant financial impact on the HRA. However, as discussed earlier in the report, the Government have announced that rent increases will return to CPI + 1% for a 5 year period from 2020.

Retained One For One Replacement Receipts

5.6 Local Authorities can retain an element of Right To Buy receipts locally to be used on one for one replacement housing. These receipts can be used to fund up to 30% of the cost of the replacement housing and must be used within 3 years or passed to the Government. On the 6th April 2017 the Council resolved that one for one receipts should not be retained from 31st March 2017 and delegated authority to the Chief Finance Officer to determine when future receipts should be retained. £15,743,000 is required to be spent by 31.3.2020 in order to use locally all the receipts retained by Woking Borough Council. Of this total £8,437,000 needs to be spent by the end of 2018/19.

5.7 As detailed in the Investment Programme Report elsewhere on the agenda, this replacement housing can be achieved through the purchase of street properties or through the HRA carrying out its own development schemes. Officers and New Vision Homes have undertaken reviews of potential development sites on existing HRA land. It is envisaged that sufficient potential developments have been identified which would provide the opportunity to utilise all of the receipts retained to date.

5.8 HRA borrowing has been identified to finance the remaining 70% of the development spend not funded by retained receipts. A further £4,565,000 of headroom in the borrowing cap will need to be generated in order to facilitate this. This headroom can be generated by the repayment of debt associated with properties transferred under the Sheerwater project or through approval by the DCLG to increase the cap.

5.9 It is estimated that the £8,437,000 required spend will generate 32 additional dwellings for the HRA. This is calculated by taking the average cost of affordable housing dwelling purchases to date (£261,000). However these were purchases of street properties and development schemes on existing HRA land are likely to provide dwellings at a lower cost per unit.

Right To Buy Disposals

5.10 In 2013 the Government increased the discount under the Right to Buy to £75,000. Take up of the Right to Buy is popular in Woking and 13 properties were disposed of in the first two quarters of 2017/18. A £169,000 reduction in income has been built into the 2018/19 budget to reflect the loss of disposed dwellings. The debt associated with these properties is still serviced by the HRA.

5.11 When a dwelling is disposed of under the Right to Buy the proceeds are split between the Treasury, retained one for one receipts, and for the Local Authority to use on general use. To date the proceeds retained by the authority have been used for investment purposes rather than repaying the debt associated with the disposed properties.

Housing Related Support

5.12 Currently Surrey County Council fully subsidise the Housing Related Support charges for council tenants in receipt of a means tested benefit. Surrey have indicated that this funding will cease with effect from 6th April 2018. This £130,000 funding has been removed from the 2018/19 estimates (this was previously budgeted within Gross Rents and Services on the HRA Operating Account shown in Appendix 1). The budget has been prepared on the basis that this service will continue to be provided in 2018/19 despite the loss of this funding. The costs associated with this service (including direct staff costs of £375,762) therefore remain in the 2018/19 HRA Budget. However this service will be reviewed during 2018/19 and the scope of the service may be altered from 1st April 2019.

5.13 This removes all Surrey County Council funding from the HRA.

Major Repairs Contribution

5.14 The Major Repairs Contribution transfers £3,982,000 to the Major Repairs Reserve for capital investment in the stock. This contribution has been calculated based on the Major Repairs Allowance advised by central government in the self-financing determination. This figure has been uplifted by CPI (September CPI of 3%) and adjusted to reflect changes in the number of dwellings held. This results in an increase of £109,000 on the 2017/18 contribution.

Energy

5.15 Energy costs continue to be volatile and difficult to predict. Charges to tenants will be adjusted to reflect changes in costs caused by fluctuations in energy prices. The Council has retendered its energy contracts to ensure value for money is achieved. A review of energy recharges will be undertaken based on a full year's data under the new contractual arrangements. Further quarterly reviews will be carried out with input from the Council's energy bureau service provider STC.

Repairs, Maintenance, and Management

5.16 As reported in the October Green Book a £41,000 under spend is expected on responsive repairs in 2017/18. This trend is expected to continue into 2018/19 and the budget has been reduced by £72,000. This is offset by an introduction of a £15,000 budget for tree works which are now procured through Serco independently of New Vision Homes.

5.17 The 2018/19 voids budget has been increased by £17,000 to allow void works to be carried out to a higher specification.

5.18 To reflect best practice NVH are proposing to carry out statutory inspections over a 5 year programme rather than 10 years. This will increase Statutory Services expenditure under the contract by £432,000. For 2018/19 these additional inspections have been treated as a revenue project and are included under the Renovations and Improvements section of the Housing Investment Programme. Any additional ongoing annual costs from 2019/20 will need to be incorporated into the HRA Operating Account.

5.19 A 6% reduction on the management costs under the NVH contract has been offered on the basis the contract is extended.

5.20 The budget allocation to the New Vision Homes Asset Management Plan (detailed on the Housing Investment Programme) may need to be adjusted in future years to take into account any increases in revenue budgets for services managed by New Vision Homes. For 2018/19 the allocation has been maintained at the current level of £5.1m.

NVH Contractual Inflation

5.21 The New Vision Homes contract is inflated each year by a combination of the BMI Maintenance and CPI indices less a 1% savings target (the management schedules under the contract are excluded from the savings target). December CPI was 3% and the estimated value of the BMI Maintenance indices is 3.5%. Total contractual inflation is estimated to be £91,000 in 2018/19.

Reserves and Balances

5.22 A £1,120,000 revenue contribution to capital outlay (RCCO) is budgeted for 2018/19 and will be used towards financing the NVH Asset Management Plan (AMP).

5.23 The balance on the Housing Investment Programme reserve was £10,168,000 as at 31st March 2017. £1,418,000 of this reserve has been budgeted to finance the Communal Heating and Hot Water Systems Project identified on the Housing Investment Programme.

Sheerwater Regeneration Scheme

5.24 On the 6th April 2017 Council authorised Thameswey Developments Limited (TDL) to obtain tenders for the implementation of Phase 1 of the Sheerwater Regeneration Scheme. Once these tenders are reviewed officers will report back to Council on the update of the financial model for the regeneration. Both the affordability of the project, and its impact on the financial sustainability of the HRA, will need to be considered as part of this review. No implications relating to the Sheerwater Project are accounted for in the 2018/19 Budget.

5.25 Consideration should be given to mitigating the financial risks facing the HRA, including those arising from the Sheerwater Regeneration, by reducing the New Vision Homes Asset Management plan from 2019/20 onwards.

6.0 Conclusion

6.1 It is estimated that the HRA will make an RCCO of £1,120,000 in 2018/19. The working balance per property will remain at £150 as at 31 March 2019. A working balance per property of £100 to £150 is considered necessary for prudent financial management.

7.0 Implications

Financial

7.1 The financial implications are explicit in the report.

Human Resource/Training and Development

7.2 There are no additional human resources or training and development implications arising as a direct result of this report.

Community Safety

7.3 No community safety implications noted.

Risk Management

7.4 Risks to budgets have been identified throughout the year and reported in the Performance and Financial Monitoring Information booklet (the "Green Book"). Draft budgets have been adjusted in appropriate cases. Specific risks have been set out in the report.

Sustainability

7.5 No sustainability implications noted.

Equalities

7.6 No equalities implications noted.

8.0 Consultations

8.1 No public consultations have been undertaken in preparing this report.

REPORT ENDS

EXE18-010

APPENDICES

Equality Impact Assessment

The purpose of this assessment is to improve the work of the Council by making sure that it does not discriminate against any individual or group and that, where possible, it promotes equality. The Council has a legal duty to comply with equalities legislation and this template enables you to consider the impact (positive or negative) a strategy, policy, project or service may have upon the protected groups.

		Positive impact?			**Negative impact?**	**No specific impact**	**What will the impact be? If the impact is negative how can it be mitigated? (action) THIS SECTION NEEDS TO BE COMPLETED AS EVIDENCE OF WHAT THE POSITIVE IMPACT IS OR WHAT ACTIONS ARE BEING TAKEN TO MITIGATE ANY NEGATIVE IMPACTS**
		Eliminate discrimina tion	**Advance equality**	**Good relations**			
Gender	Men					X	
	Women					X	
Gender Reassignment						X	
Race	White					X	
	Mixed/Multiple ethnic groups					X	
	Asian/Asian British					X	
	Black/African/Caribbean/ Black British					X	
	Gypsies / travellers					X	
	Other ethnic group					X	
Disability	Physical					X	
	Sensory					X	
	Learning Difficulties					X	

	Mental Health					X	
Sexual Orientation	Lesbian, gay men, bisexual					X	
Age	Older people (50+)					X	
	Younger people (16 - 25)					X	
Religion or Belief	Faith Groups					X	
Pregnancy & maternity						X	
Marriage & Civil Partnership						X	
Socio-economic Background						X	
Carers						X	

The purpose of the Equality Impact Assessment is to improve the work of the Council by making sure it does not discriminate against any individual or group and that, where possible, it promotes equality. The assessment is quick and straightforward to undertake but it is an important step to make sure that individuals and teams think carefully about the likely impact of their work on people in Woking and take action to improve strategies, policies, services and projects, where appropriate. Further details and guidance on completing the form are available.
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Sustainability Impact Assessment

Officers preparing a committee report are required to complete a Sustainability Impact Assessment. Sustainability is one of the Council's 'cross-cutting themes' and the Council has made a corporate commitment to address the social, economic and environmental effects of activities across Business Units. The purpose of this Impact Assessment is to record any positive or negative impacts this decision, project or programme is likely to have on each of the Council's Sustainability Themes. For assistance with completing the Impact Assessment, please refer to the instructions below. Further details and guidance on completing the form are available.

Theme (Potential impacts of the project)	**Positive Impact**	**Negative Impact**	**No specific impact**	**What will the impact be? If the impact is negative, how can it be mitigated? (action)**
Use of energy, water, minerals and materials			X	
Waste generation / sustainable waste management			X	
Pollution to air, land and water			X	
Factors that contribute to Climate Change			X	
Protection of and access to the natural environment			X	
Travel choices that do not rely on the car			X	
A strong, diverse and sustainable local economy			X	
Meet local needs locally	X			
Opportunities for education and information			X	
Provision of appropriate and sustainable housing	X			
Personal safety and reduced fear of crime			X	
Equality in health and good health	X			
Access to cultural and leisure facilities			X	
Social inclusion / engage and consult communities	X			
Equal opportunities for the whole community			X	
Contribute to Woking's pride of place			X	