



CABINET: 15 January 2019

**EXECUTIVE OVERVIEW & SCRUTINY
COMMITTEE: 31 January 2019**

Report of: Director of Housing and Inclusion and Borough Treasurer

Relevant Portfolio Holder: Cllr J. Forshaw

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SUBJECT: HOUSING ACCOUNT – REVENUE AND CAPITAL PROGRAMME

Wards Affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To provide a summary of the Housing Account's financial position.

2.0 RECOMMENDATIONS TO CABINET

2.1 That the financial position be noted and consideration given to the budget matters set out in this report.

2.2 That the use of the Director of Housing and Inclusion's delegated authority in relation to rent and service charge changes be noted and endorsed.

2.3 That this report be used for consultation purposes prior to the Council considering this matter in February 2019.

2.4 That the Housing and Landlord Services Portfolio Holder be given delegated authority to submit firm proposals to Council on 27 February 2019 to enable the budget to be set.

2.5 That call in is not appropriate for this item as it is to be submitted to the next meeting of the Executive Overview and Scrutiny Committee on 31 January 2019.

3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE

- 3.1 That the budget position be considered and that any comments agreed by the Committee be submitted to the Housing and Landlord Services Portfolio Holder in advance of the Council meeting to be held on 27 February 2019.

4.0 BACKGROUND

- 4.1 The Council must set a budget for its Housing Revenue Account (HRA) before the start of each financial year, and this budget will set out the financial basis for the delivery of services. The budget that is set must enable Council and tenant priorities to be delivered but must also be affordable. In addition it should comply with best practice requirements on budget setting and meet statutory and accounting regulations.
- 4.2 The financial year 2019/20 represents the final year of the government's four year rent setting policy to reduce social housing rents by 1% per annum to 2020. This policy has progressively added pressure to the HRA over this period, however, the Policy Options agreed by Council in July 2016 and October 2016 have delivered sufficient savings and efficiencies to secure the HRA's financial position over the medium term.
- 4.3 In the five year period from 2020/21 to 2024/25, rent policy will revert to the previous approach of an increase of up to CPI plus 1% per year. This will aid business planning in the medium term by providing more certainty, ensuring that the real value of rent levels is maintained and could provide funds for further investment in the housing stock.

5.0 RENTAL INCOME

- 5.1 As a consequence of the government policy highlighted in paragraph 4.2 and in line with our standard practice, the Director of Housing and Inclusion will use her delegated authority to reduce rent levels by 1% from April 2019 for all properties.
- 5.2 Rental income is the main funding source for the Housing Account. The 2019/20 rent reduction means that the overall level of rental income will reduce next year, although there are a number of other factors that will influence this position including:
- The number of properties within the Housing Stock which will be influenced by Right to Buy Council house sales (which is outside the Council's control), the number of homes built or purchased, and the number of homes demolished as part of revival and development projects
 - Current void levels are assumed to continue at slightly lower than 2%

- The full roll out of Universal Credit continues to be an area requiring close monitoring but the effect so far has been a relatively modest increase in arrears which in turn means a modest increase in the contribution to the bad debt provision. This can be accommodated within a budget based on 1% of rent arrears.

6.0 OTHER CHARGES

6.1 A general principle is applied to service charges that they should be calculated to ensure that they are sufficient to recover the cost of service provision. In keeping with this principle it is proposed to increase the general level of service charges next year by 3.4% (based on the September CPI rate of 2.4% plus 1.0% in line with our standard practices). There are specific service charges for specific services and these are applied to all properties that receive that service. In general, the service charges apply to communal properties such as sheltered stock and flats as well as residents who receive the Council's furnishing service.

6.2 There will be a number of exceptions to this general approach including:

- The heating charge for each property in 2019/20 will be calculated based on estimated useage and estimated cost. This means that different charges will apply to different residents. The heating account overall remains in surplus so all residents will have a reduction in their heating charge of 5%, except for 35 residents who will receive a lower reduction or will have their heating charge unchanged.
- As in 2018/19, garage rents will be increased by CPI (2.4%)
- CAT2 sheltered scheme service charges for communal maintenance work have been reviewed through 2018/19 and this found that most schemes would require an increase in excess of CPI + 1%. In order to provide consistency for these tenants their charges will be capped at 3.4% in 2019/20. There is one site where an increase of 1.4% is required, and in addition there is one site where a reduction of 9.9% will be implemented.

7.0 DRAFT ESTIMATES AND CAPITAL INVESTMENT PROGRAMME

7.1 The base assumptions used in the HRA Business Plan and for the HRA Estimates are detailed in Appendix A. The HRA Business Plan sets out projections of expenditure and income over a 30 year period to enable forward planning and long term investment decisions to be made. The HRA Estimates for 2019/20 then provide more detailed information that sets out the financial basis for how HRA service objectives will be achieved in the next year.

7.2 The draft estimates for 2019/20 are shown in Appendix B and provide a provisional HRA budget covering all areas of revenue expenditure and income. These estimates take account of the budget assumptions in Appendix

A and significant contractual uplifts, but they do not allow for any service improvements. They also allow for reductions in rents and changes in service charges as highlighted above, as well as the following factors:

- The response maintenance and voids contract delivery model report that went to Cabinet on 8 November 2018 sought delegated authority for the Director of Housing and Inclusion to put in place an interim contract arrangement for 2019/20, pending the new outsourced delivery model. The report also committed to addressing financial implications of negotiating the interim contract. £167,000 has been added to the budget in anticipation of the renegotiation, of this £118,000 is the amount that would have been added to the existing budget for contractual uplift.
- The current pre-painting budget will be used more flexibly as a revenue planned maintenance budget to pick up the revenue works identified in the stock condition survey and other revenue planned works.
- £29,000 has been transferred from the revenue budget for HRA digital expenditure, to capital. This recognises that some of the HRA digital plans have a capital element as well as revenue elements. It is proposed to combine this transferred budget with the existing budget of £21,000 approved for Digital Inclusion in 2019/20, to create an ongoing central HRA Digital Initiatives budget.
- It is assumed that £1.1m of the projected favourable budget variance in the current financial year will be used to support the budget position in 2019-20

- 7.3 In addition to the roll over budget in continuing services, it is also important to consider new budget issues and areas for development. Appendix C comprises a list of budget issues that Officers have identified and that should be considered as part of the budget process. Members will need to carefully consider those options, and any others that may emerge through the budget process and determine which proposals to include in the final budget to meet service objectives.
- 7.4 There have been separate reports to Cabinet and Council about the setting-up of a development company, which have indicated that 48 homes for affordable rent are planned. This will add to the HRA housing stock when bought by the Council from the development company.
- 7.5 The purchase of these properties by the HRA will be funded from right to buy 141 receipts and HRA borrowing. As there are quarterly deadlines for when 141 receipts must be used, if for any reason the formation of the development company is seriously delayed then the HRA will need to build the affordable homes through alternative means, utilising the same budget. This will ensure that 141 receipts don't have to be repaid to Government with interest, as well as adding to the Council housing stock.
- 7.6 Furthermore, in order to ensure that 141 receipts are fully utilised each quarter, it is proposed that Council will be asked to approve that the Director

of Housing and Inclusion be given delegated authority, in consultation with the portfolio holder for Housing and Landlord Services, to purchase homes with match funding provided from HRA borrowing. Approval for this approach will be sought at the February 2019 Council meeting.

7.7 The Capital Investment Programme for the next 5 years is shown in Appendix D along with initial profiling, and is intended to ensure that our housing stock meets the decent homes standard. The 5 year budget reflects the value in today's terms from the comprehensive asset survey work that has been carried out to maintain that standard and improve the condition of the stock itself for the long term. The survey indicates that for the next five years £34.7m of capital works will need to be invested, as well as some revenue works undertaken. Re-profiling from the 2018/19 mid-year budget agreed at the December Council meeting has been added to this figure to provide a total five year Housing Investment Plan of £35.4m. Within this total, roofing accounts for 31% of the expected Housing Investment Plan for the next five years.

7.8 In order to manage resourcing and delivery of the required works, the Housing Investment Plan has been profiled equally throughout the five years to remove peaks and troughs in the expected renewal dates for different components. The 2019/20 budget reflects what can realistically be delivered and this fits with anticipated component renewal dates. Years two to five are likely to require some re-profiling forwards and backwards due to:

- The outcome of asset reviews to be carried out during 2019/20 to assess the financial viability of individual stock
- Three or four year delivery contracts due to be tendered during 2019/20 for a 2020/21 start
- Local knowledge from Council staff and findings once particular works actually commence
- Contractual uplift obligations and changes in stock levels

7.9 In addition to the Housing Investment Plan there are other standard Council housing capital budgets included in Appendix D for disabled adaptations, sheltered upgrades, contingency/voids and professional fees. The 2019/20 budget for Fire Risk Assessment works approved in February 2018 has been covered by the budget in the new capital investment plan.

8.0 TOWARDS A BALANCED BUDGET POSITION AND LONG TERM PROSPECTS

8.1 The draft estimates contained in the appendices identify that there is a small surplus of £137,000 before taking into account the new budget issues included in Appendix C. There is also funding of up to £1.510m in the Budget

and Efficiency Savings Reserve that could be used to fund these budget issues.

8.2 Officers will work with Members from the political groups and will consult with tenants to consider this position and how the budget should be balanced and what budget issues should be approved. In looking at finalising the budget for next year consideration will also need to be given to a number of different factors including:

- Tenants comments and feedback on the budget position
- The acceptance of the new budget issues set out in Appendix C
- The profiling of capital expenditure and borrowing across future financial years
- HRA reserves and balances

9.0 SUSTAINABILITY IMPLICATIONS

9.1 The Council with its Tenants wants to ensure that the future business plan allows properties to be brought up to a reasonable standard and that appropriate investment can be made at the appropriate time. Business plan modelling enables a well-informed investment plan to be developed in keeping with the requirements of an effective asset management strategy.

10.0 RISK ASSESSMENT

10.1 The formal consideration and reporting of the budget estimates is part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council. This process is resource intensive for both Members and Officers but ensures that a robust and achievable budget is set. The draft HRA estimates contained in Appendix B will be reviewed early in the New Year and updated to take into account any new developments and more recent information.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required. A formal Equality Impact Assessment will be produced if necessary when the Council agrees the budget at its meeting in February.

Appendices

Appendix A – HRA Business Plan Key Assumptions

Appendix B – Draft HRA Estimates

Appendix C – Budget Issues

Appendix D – Draft Capital Investment Plan

Appendix E – Minute of Cabinet 15 January 2019 (Executive Overview and Scrutiny Committee only)

APPENDIX A

KEY BUSINESS PLAN ASSUMPTIONS FOR THE NEXT FIVE YEARS - 2019/20 TO 2023/24

	2019/20	2020/21	2021/22	2022/23	2023/24
General Factors					
CPI Inflation	2.4%	2%	2%	2%	2%
RPI Inflation	3.3%	3%	3%	3%	3%
Stock Numbers	-1.0%	-1.0%	-0.9%	-0.9%	-0.9%
Income					
Dwelling rents	-1%	3%	3%	3%	3%
Service charges	3.4%	3%	3%	3%	3%
Garage rents	2.4%	2%	2%	2%	2%
Heating charges	-4.8%	0%	3%	3%	3%
Interest income	0.75%	0.75%	0.75%	0.75%	0.75%
Other income	2.4%	2%	2%	2%	2%
Expenditure					
Employee related	2.6%	2%	2%	2%	2%
Repairs, maintenance & energy	0%	0%	0%	3%	3%
Bad debt provision	1%	1%	1%	1%	1%
Other expenditure	0%	0%	0%	2%	2%

Notes

(1) As void rates do not change over the period of the business plan and their impact is built into the starting budgets they do not need to be included above

(2) The average interest rate on existing borrowing of 3.47% will not change over the business plan period and so is not shown above

(3) The new investment programme is based on survey information analysed in 2018/19 following a full stock condition survey

(4) For the 2019/20 budget the above assumptions have been applied - most notably 0% uplift on repairs and other expenditure budgets. This brings the approach more in line with that for the GRA. However where there is a contractual obligation for an inflationary uplift and it cannot be accommodated within the existing budget, then this will be built into the base budget

(5) No principle repayment of debt will be made in 2019/20, this position will be reassessed in 2020/21

(6) The budget has been built so as to fully fund the updated capital programme from revenue contributions only, with borrowing only used to fund the budget issue of providing additional affordable homes.

(7) Temporary factors that are included in the 2018/19 budget for one year only are set at nil from 2019/20 onwards

APPENDIX B

DRAFT HOUSING REVENUE ACCOUNT BUDGET ESTIMATES

	Employees	Running Expenses	External income	Total Cash	Support Services & Capital Charges	Net budget
Budget 2019/20	£	£	£	£	£	£
General Expenses						
Premises Related Expenses	0	162,880	0	162,880	0	162,880
Bad Debts Provision	0	240,000	0	240,000	0	240,000
Capital Programme Contribution	0	0	0	0	8,766,000	8,766,000
Debt Charges	0	0	0	0	3,056,990	3,056,990
Sub-Total	0	402,880	0	402,880	11,822,990	12,225,870
Supervision, Management, Repairs & Maintenance						
Central Administration	814,320	639,390	-89,300	1,364,410	1,794,920	3,159,330
Customer Experience (HRA)	405,410	156,230	0	561,640	38,110	599,750
<u>Housing Operations</u>						
Housing Operations Management	153,350	3,500	-91,070	65,780	125,730	191,510
Income & Financial Inclusion	595,440	28,210	-9,800	613,850	145,240	759,090
Allocations	223,610	73,930	-90	297,450	7,460	304,910
Tenancy Services	31,060	136,360	-185,470	-18,050	0	-18,050
Estate Management	245,150	345,710	-30	590,830	18,150	608,980
Elderley & Disabled Support	489,230	398,830	-1,152,450	-264,390	269,680	5,290
Sub-Total	1,737,840	986,540	-1,438,910	1,285,470	566,260	1,851,730
<u>Property Services</u>						
Property Services Management	612,590	114,600	-210	726,980	-206,470	520,510
Caretakers & Gardeners	267,510	141,010	-43,420	365,100	13,140	378,240
Maintenance of Grassed Areas	0	723,220	-23,100	700,120	0	700,120
District Heating Service	0	260,050	-260,050	0	0	0
Responsive & Void Repairs	406,590	3,517,560	-56,060	3,868,090	2,350	3,870,440
Planned Maintenance	464,630	764,200	-3,540	1,225,290	-364,320	860,970
Sub-Total	1,751,320	5,520,640	-386,380	6,885,580	-555,300	6,330,280
General Income						
Customer & Client Receipts	0	0	-23,149,480	-23,149,480	0	-23,149,480
Interest	0	0	0	0	-53,980	-53,980
Sub-Total	0	0	-23,149,480	-23,149,480	-53,980	-23,203,460
Transfers to/from Reserves	0	0	0	0	-1,100,000	-1,100,000
Grand Total	4,708,890	7,705,680	-25,064,070	-12,649,500	12,513,000	-136,500

*Up to £1,510k is available in the budget and efficiency savings reserve in addition to this budgeted surplus of £137,000 to fund budget issues identified in appendix C. An appropriate amount needs to be kept back to fund the HRA element of the SORP.

Notes:

1. The estimates above reflect the latest position in budget setting. Support service recharges are currently assumed to be a 2% increase though actual figures are likely to vary up or down once they have been calculated
2. The HRA forecast outturn for 2018/19 at mid-year was £1,146,000. The budget above utilises £1,100,000 of this to fund the 2019/20 HRA budget. The mid-year forecast is still considered realistic.
3. Staff budgets reflect the organisational establishment structure which includes changes that have occurred during 2018/19. Overall, employee budgets reflect 2% uplift on salary costs and employee recharge costs.
4. Other amendments to the existing budget, for example significant contractual increases, will be updated as the process continues
5. Within Housing Operations: Furnished Homes; Tenants Expenses and General Community Facilities have been combined as Tenancy Services
6. Within Housing Operations: Estate Maintenance has been moved into Estate Management
7. Within Furnished Homes, the budget for expenditure on tenant furniture and the budget for expected total income from the furniture service are both being increased by around £35,000 to better reflect demand, net effect budget neutral.

Budget 2018/19	Employees	Running Expenses	External income	Total Cash	Support Services & Capital Charges	Net budget
£	£	£	£	£	£	£
General Expenses						
Premises Related Expenses	0	162,880	0	162,880	0	162,880
Bad Debts Provision	0	370,000	0	370,000	0	370,000
Capital Programme Contribution	0	0	0	0	11,335,000	11,335,000
Debt Charges	0	0	0	0	3,056,990	3,056,990
Sub-Total	0	532,880	0	532,880	14,391,990	14,924,870
Supervision, Management, Repairs & Maintenance						
Central Administration	789,270	536,500	-87,900	1,237,870	1,759,810	2,997,680
Customer Experience (HRA)	396,880	185,230	0	582,110	6,870	588,980
Housing Operations						
Housing Operations Management	149,720	3,500	-91,070	62,150	115,840	177,990
Income & Financial Inclusion	557,850	32,330	-9,800	580,380	142,400	722,780
Allocations	218,840	83,934	-90	302,684	14,550	317,234
Furnished Homes	32,200	75,096	-139,000	-31,704	0	-31,704
Tenants Expenses	0	26,500		26,500		26,500
Estate Management	225,660	322,800	-30	548,430	17,800	566,230
General Community Facilities		370	-6,180	-5,810		-5,810
Estate Maintenance Services	2,440	22,910		25,350		25,350
Elderley & Disabled Support	499,440	396,810	-1,115,370	-219,120	264,390	45,270
Sub-Total	1,686,150	964,250	-1,361,540	1,288,860	554,980	1,843,840
Property Services						
Property Services Management	617,730	114,600	-210	732,120	-228,670	503,450
Caretakers & Gardeners	260,910	141,010	-42,260	359,660	12,880	372,540
Maintenance of Grassed Areas	0	723,220	-41,300	681,920	0	681,920
District Heating Service	0	253,000	-253,000	0	0	0
Responsive & Void Repairs	400,920	3,350,960	-53,760	3,698,120	2,310	3,700,430
Planned Maintenance	469,260	1,058,200	-3,440	1,524,020	-350,590	1,173,430
Sub-Total	1,748,820	5,640,990	-393,970	6,995,840	-564,070	6,431,770
General Income						
Customer & Client Receipts	0	0	-23,552,560	-23,552,560	0	-23,552,560
Interest	0	0	0	0	-53,980	-53,980
Sub-Total	0	0	-23,552,560	-23,552,560	-53,980	-23,606,540
Transfers to/from Reserves	0	0	0	0	-3,180,600	-3,180,600
Grand Total	4,621,120	7,859,850	-25,395,970	-12,915,000	12,915,000	0

APPENDIX C – BUDGET ISSUES

	Budget Issues	2019/20 £000	2020/21 £000	2021/22 £000
	Capital Expenditure			
1	Asset Management Assessment model	185		
2	HRA Digital Initiatives Capital pot - ongoing	-	21	21
	Sub Total	185	21	21
	Revenue Expenditure			
1	Asset Management Assessment model - ongoing	-	15	15
2	Routine Electrical Testing 5 year cycle - ongoing	100	100	100
3	Gas Safety Compliance Application	72	72	72
4	Rent Sense - ongoing	43	43	43
5	Service Charge Management Software-ongoing	-	4	4
6	Resources for procurement compliance	60	5	5
7	Paperless direct debit extension - ongoing	17	19	19
8	Recruit two Housing Apprentices	23	0	0
9	GDPR Compliance Project	10		
	Sub Total	325	258	258
	Total	510	279	279

Appendix D – DRAFT CAPITAL PROGRAMME UNTIL 2023/24

Scheme	5 Years £000's	19/20 £000's	20/21 £000's	21/22 £000's	22/23 £000's	23/24 £000's
Roofing	10,845	2,169	2,169	2,169	2,169	2,169
External Works	5,021	1,004	1,004	1,004	1,004	1,005
Heating	4,113	823	823	823	823	821
Electrics	3,652	730	730	730	730	732
Kitchens	3,164	633	633	633	633	632
Windows & Doors	2,741	548	548	548	548	549
Bathrooms	2,504	501	501	501	501	500
Walls	1,398	280	280	280	280	278
Fire Safety Works	1,353	271	271	271	271	269
Communal Services	587	117	117	117	117	119
Housing Capital Investment Plan	35,378	7,076	7,076	7,076	7,076	7,074
Disabled Adaptations		500	500	500	500	500
Sheltered Upgrades		140	140	140	140	140
Contingency		300	300	300	300	300
Professional Fees		700	700	700	700	700
Other Housing Schemes		1,640	1,640	1,640	1,640	1,640
Digital Initiatives		50	29	29	29	29
Total Expenditure		8,766	8,745	8,745	8,745	8,743

Notes

- (1) The five year Capital Investment Plan, (in grey), of £35.378m has been developed from the recent stock condition survey work analysed in 2018/19. Total required work has been profiled equally over all five years to enable appropriate staffing levels and contractor resourcing to be achieved
- (2) Year 2 to 5 budgets are expressed in 2019/20 terms, contractual uplift and changes in stock levels will be considered each year as part of budget setting
- (3) It is anticipated that years 2 to 5 will require profiling forwards and backwards to optimize use of available funds and resources, based on asset reviews carried out during 2019/20 as well as local knowledge
- (4) 2018/19 budgets slipped at mid-year for roofing (£600k) and electrical works (£180k) have been profiled equally through the five years. The bathrooms budget (£100k) brought forward at mid-year has been removed equally throughout the five years