This Report will be made public on 10 January 2017

Folkestone
Hythe & Romney Marsh
Shepway District Council
www.shepway.gov.uk

Report Number **C/16/96**

To:	**Cabinet**
Date:	**18 January 2017**
Status:	**Non-Key Decision**
Head of Service:	**Pat Main, Interim Head of Finance**
Cabinet Members:	**Councillor Miss Susan Carey, Finance and Councillor Alan Ewart-James, Housing**

SUBJECT: HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL ORIGINAL BUDGET 2017/18

SUMMARY: This report sets out the Housing Revenue Account Revenue and Capital Budget for 2017/18 and proposes a decrease in rents and an increase in service charges for 2017/18.

REASONS FOR RECOMMENDATION:
Cabinet is requested to agree the recommendations set out below as the Local Government Housing Act 1989 requires the Council, as a Local Housing Authority, to keep a separate Housing Revenue Account and to produce estimates to ensure that the account does not go into deficit. The authority also has a duty to set and approve rents in accordance with government guidelines that are outlined in the self financing determination. The Constitution requires that the annual Budget and any variations to the Budget are approved by Council.

RECOMMENDATIONS:
1. **To receive and note Report C/16/96.**
2. **To recommend to Full Council the Housing Revenue Account Budget for 2017/18. (Refer to paragraph 2.1 and Appendix 1)**
3. **To recommend to Full Council the decrease in rents of dwellings within the HRA on average by £0.85 per week, representing a 1.0% decrease with effect from 3 April 2017. (Refer to paragraph 3.2)**
4. **To recommend to Full Council the increase in service charges. (Refer to section 3.5)**
5. **To approve the Housing Revenue Account Capital Programme budget 2017/18. (Refer to paragraph 4.1 and Appendix 2)**

1. INTRODUCTION

1.1 The Housing Revenue Account (HRA) is a ring-fenced account and is determined by the HRA Business Plan. The HRA Business Plan determines HRA budget setting as estimates need to be closely aligned to the model to ensure that the HRA remains financially viable.

1.2 The Reform of Council Housing Finance came into effect from 1 April 2012, and significantly has brought an end to the subsidy system where authorities such as Shepway made a contribution to the national pot. Instead, authorities are now part of the self-financing arrangements following a re-distribution of the national housing debt and the abolition of rent restructuring.

2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

2.1 Original Budget 2017/18

The proposed HRA Budget for 2017/18, at Appendix 1, shows a forecast deficit of £779k.This is in line with the agreed HRA Business Plan which will continue to fluctuate from year to year, depending on the profile of the stock, size of the new build programme and the resources available. The year end HRA revenue reserve balance as at 31 March 2018 is expected to be £3.582m as shown at Table 1 below.

Table 1	**£000's**
Original estimate of balance at 31 March 2017	**(4,361)**
Movement from Original to Original budgets	
Decrease in repayment of debt (see 2.1.2)	(900)
Decrease in general management (see 2.1.3)	(318)
Decrease in depreciation costs (see 2.1.4)	(104)
Decrease in loan charges interest	(60)
Decrease in debt management expenses	(10)
Increase in revenue contribution to capital expenditure (see 2.1.5)	364
Increase in repairs and maintenance (see 2.1.6)	171
Decrease in rents and other service charges due to annual rent setting (see 2.1.7)	82
Decrease in interest on notional cash balances	32
Increase in special management	26
Other minor changes	(8)
	(725)
Deficit 2016/17	1,504
Original estimate of balance at 31 March 2018	**(3,582)**

2.1.1 HRA Revenue budget

The HRA revenue budgets are reflected in the HRA business plan. The business plan sets out the Council’s income and expenditure plans for its landlord service over a 30 year period, including the capital costs of maintaining the decent homes standard and of any additional improvements agreed with tenants.

2.1.2 **Repayment of Debt**

The decrease in the repayment of debt relates to a change in strategy within the HRA Business Plan. The approved detailed HRA Business Plan agreed to extend the payback of debt period by approximately 5-7 years to ensure the council can continue to deliver the new homes programme.

2.1.3 **General Management**

The decrease in general management relates to the following items:-

- Premises insurance has reduced by £90k following the re-tender of insurance, a competitive bid from our existing insurer and the low claims experience that has built up over the previous contract term. Therefore, the premium for HRA has been substantially reduced and this is reflected within the detailed budget.
- During 2016/17 East Kent Housing (EKH) commissioned a stock condition survey through Rand Associates for all four councils who are in the ALMO. This cost was a one-off and not needed in 2017/18 therefore, the budget has reduced by £80k.
- Administration recharges has reduced by approximately £148k mainly due to the re-allocation of charges relating to the new build/acquisition programme within HRA capital programme and a decrease in accommodation charges due to the sale of 3-5 Shorncliffe Road.

2.1.4 **Depreciation costs**

The decrease in depreciation costs relates to combined decreases of the major repairs allowance and depreciation on non-HRA dwellings.

2.1.5 **Revenue Contribution to Capital**

The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisition programme.
This is reflected within the HRA Business Plan which was agreed by Cabinet on 23 March 2016.

2.1.6 **Repairs and Maintenance**

The increase in repairs and maintenance mainly relates to the following items:-

- Planned maintenance has increased by £65k relating to an increase within internal and external decorations on sheltered and non-sheltered properties and decreases within heating servicing and repairs based on the new contract, window servicing and door entry schemes.

- Void repairs has increased by £63k due to there being higher category works being completed and an increase in the number of properties needing repair.
- Asbestos removal has increased by £25k due to full house surveys, rather than individual rooms, being completed to comply with landlord's responsibilities and this has identified more works.

2.1.7 **Rents**

As part of the Summer Budget 2015 the Chancellor announced that rents in social housing would be reduced by 1% a year for four years from April 2016.

However, late rent guidance was received on 8th February 2016 from central government announcing that it will put in place a one year exception for 2016/17 to the 1% reduction in rents, for all supported accommodation whilst a review into Supported Accommodation is being carried out.
As a result the supported accommodation rents within the HRA will decrease by 1% with effect from 3 April 2017.
The decrease in rents within the HRA revenue budget shows the impact of this change (see 3.2 below).

2.1.8 **East Kent Housing (EKH) Management Fee**

EKH have frozen the 2017/18 management fee and absorbed any inflation and contractual incremental increases in salaries within the base budget through identifying efficiencies. EKH have also identified some items to improve the service and these are included within the budget proposals. These are:-

Procurement Officer	£13,600
Benefits & Monies Advisor	£32,800
	£46,400

Procurement Officer – Enables EKH to work with councils to procure housing related contracts and to maximise any potential efficiency savings.

Benefits & Monies Advisor – Preserving rental income streams by helping tenants to maximise their incomes or otherwise enabling them to deal with reductions in their welfare benefits.

Therefore, the total budget for the management fee in 2017/18 is £1,974,060.

2.2 **HRA Reserve Balances**

Table 2	**2016/17**	**2017/18**
	£000's	£000's
Balance as at 1 April	5,865	4,361
Balance as at 31 March	4,361	3,582

HRA Reserve – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan. The actual reserve balance on the HRA at the start of 2016/17 was £5.865m, this has increased due to the planned accumulation of balances to help fund the future new build programme. Table 2 below shows the estimated HRA balances to 31 March 2018.
The HRA reserve is expected to reduce by £779k between 2016/17 and 2017/18.

The changes with the introduction of Self-Financing have introduced significant flexibility for the Council to manage the resources and debts within the HRA to best meet the needs of existing and future tenants. The estimated HRA balances, set out in table 2, are above the revised recommended minimum balance, which is £2m.

Major Repair Reserve (MRR) – This reserve is derived from the transfer of the depreciation charge from the revenue account and can be used to fund major repairs for capital expenditure or debt repayment. The Council's Business Plan requires that the reserve is allocated to fund capital expenditure. The proposed HRA capital programme should leave the Major Repairs Reserve with a nil balance. This is in line with the practice adopted by the Council in previous years, of using the Major Repairs Reserve in the year it is received.

3. RENT SETTING GUIDANCE & RENTS

3.1 Rent Guidance – National context

The purpose of this Government initiative, re-introduced in 2015/16, is to provide a consistent basis for the setting of local authority and Registered Social Landlords (RSLs) rents at an affordable level. Government rent policy aims to provide a closer link between the rent and the qualities tenants value in a property, and to reduce unjustifiable differences between rents set by Councils and by RSLs. The current self-financing business plan is based on continuing to adopt the government's rent policy.

3.2 Rent Decrease – Local context

In line with last years approved report, Housing Services will be charging the 'formula rent'[1] when a property is re-let to a new tenant and service charges that fall under utilities will be charged at the 'actual' cost on new lets.

The proposed decrease of 1%, in line with Government guidelines, equates to a decrease of £0.85 per week or £42.50 per annum. This gives an average rent of £87.18 (over 50 weeks) in 2017/18 (average rent in 2016/17 is £87.83). This decrease in rents is a reduction of approximately

[1] *The 'formula rent' is the amount an individual rent can be set at before taking into account the rent restructuring restrictions and maximises the rental income received without penalising any individual.*

£145k in 2017/18 and has been factored into the latest approved HRA business plan.

The proposed decrease will keep our average rent below the Limit Rent set by the Government, therefore avoiding any Housing Benefit rebate costs.

3.3 **New Build rents**

In line with proposals set out in the Council's current HRA Business Plan, the rents for any new homes will be set at affordable rent levels. Affordable rents are defined as being a maximum of 80% of the prevailing average market rent for the area and should be no more than the prevailing local housing allowance (LHA) rates for the area to ensure that properties remain affordable.

The local housing allowances rates for 2017/18 will not be available until late January/February 2017. LHA rates for the area have not changed significantly over the last two years. The indicative 2017/18 affordable rents for the Shepway area are as follows:

Bedsits	£58.50 per week
1 bedroom houses	£85.43 per week
2 bedroom houses	£113.92 per week
3 bedroom houses	£142.40 per week
4 bedroom houses	£166.32 per week

3.4 **Rent Comparisons**

The table below compares Shepway's average weekly rent to that of other authorities in Kent.

Table 3	**Average weekly rent over 52 weeks 2017/18 £**	**Difference between SDC and other authorities £**
Shepway	83.83	-
Dover	84.96	1.13
Canterbury	90.80	6.97
Thanet	81.13	(2.70)

- Subject to Dover, Canterbury and Thanet's approval at their own Council meetings.

3.5 Service Charges

3.5.1 **General Service Charges**

The general principle for service charges for tenants is that they are set to recover the costs of the service they fund. However, the government also limits increases in service charges to the Consumer Price Index (CPI) plus 1.0% per annum as part of rent setting guidance. The CPI for September 2016 was 1.0%, CPI plus 1.0% is therefore 2.0%. As a result general service charges within the HRA will increase by 2.0% with effect from 3 April 2017.

Local authorities can increase charges above this level where costs are increased that are beyond the authorities' control. Utility charges, such as heating and hot water in sheltered housing schemes are an example where this applies. Proposals for these charges for 2017/18 are set out in 3.5.2 below.

3.5.2 **Heating charges in Sheltered Housing**

Residents in 12 of the Council's sheltered housing schemes have heating and hot water provided to their flats by communal systems. Charges are made for this service based on the floor area of each flat.

As set out within last years report, over time fuel costs have increased significantly above the rate of inflation, so that the charges raised for this service no longer cover the costs. Therefore, the proposed charges for this service towards the actual cost of providing the service are in line with those agreed last year. This continued move to full cost recovery would result in some tenants facing significant increases and it is therefore proposed to set charges that provide some interim protection against the highest increases.

Following the same approach as previous years it is recommended that the 2017/18 service charges for heating and hot water in sheltered housing schemes should be set at actual cost or 10% increase, subject to the following limits:

- Bedsit flats £15.80 per week (£790 per year)
- 1 bed flats £17.60 per week (£880 per year)
- 2 bed flats £19.40 per week (£970 per year)

A few charges are already set above these levels, and these should be frozen at current levels for 2017/18.

These changes will reduce the amount the HRA subsidises tenants' heating charges to £6,000 in 2017/18 compared to £8,000 in 2016/17.

3.5.3 **Leaseholder electrical maintenance**

The Council provides an electrical maintenance service to all of the communal areas in blocks of flats, which is delivered through the responsive maintenance contract. The cost of this element of the service equates to £40 per visit per block. This covers silent testing of fire alarms, checking of any emergency lighting circuits and checking and replacing bulbs, as well as the first call-out on any electrical installations, such as door entry systems and communal TV aerials.

These charges are covered within the basic rent for all tenants. However, leaseholders who live in blocks that receive this service are recharged a proportion of the cost. There are 94 leaseholders that receive this service.

4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

4.1 Original Budget 2017/18

The proposed HRA Capital Budget for 2017/18, shown in Appendix 2, is £8.098m. Table 4 below shows the movements in the programme from the 2016/17 original budget to the original budget for 2017/18.

Table 4	**£000's**
Original estimate 2016/17	**8,758**
Reductions in programme	
Kitchen Replacement (see 4.1.1)	(200)
Fire Protection Works (see 4.1.2)	(185)
New Build programme (see 4.1.3)	(126)
Heating Improvements (see 4.1.4)	(125)
Lift Replacements	(80)
Disabled Adaptations	(50)
Environmental Works	(50)
Treatment Works	(10)
External Enveloping	(9)
Increases in programme	
Sheltered Scheme upgrades (see 4.1.5)	110
Replacement Double Glazing Units	25
Void Capital works	20
Rewiring	10
Garages Improvements	10
Total decrease in expenditure	**(660)**
Original estimate 2017/18	**8,098**

4.1.1 Kitchen Replacement

The decrease in the kitchen replacement programme is based on the identified need and profiling of the programme.

4.1.2 Fire Protection Works

An independent fire risk assessment was carried out by Savills Housing Consultants and works identified to properties within the HRA stock. These works have been programmed over a 3 year period prioritising the most urgent items however, more works were able to be carried out in 2015/16 and 2016/17 than originally estimated.

4.1.3 **New Builds**

The budget required for the new build programme will vary from year-to-year depending on the profile of the programme.
This is reflected within the HRA Business Plan which was agreed by Cabinet on 23 March 2016 and stated that 200 new homes would be delivered over a 10 year period.

Table 5 below shows the profile of the new build/acquisitions programme over a 10 year period.

Table 5	2015/16	2016/17	2017/18	2018/19	2019/20
	Year 1	Year 2	Year 3	Year 4	Year 5
New builds/acquisitions	20	20	45	42	26

	2020/21	2021/22	2022/23	2023/24	2024/25
	Year 6	Year 7	Year 8	Year 9	Year 10
New builds/acquisitions	27	17	4	4	1

All of the new build options will be subject to a detailed viability appraisal to ensure they meet the requirements of the HRA Business Plan.

4.1.4 **Heating Improvements**

The decrease in heating improvements is due to the number of boilers that need replacing being less than the previous year due to a re-appraisal of the programme identifying suitable candidates and the cost of the new heating contract being lower than the existing one.

4.1.5 **Sheltered Scheme upgrades**

The increase in sheltered scheme upgrades relates to electrical works, general improvements, re-decorations and installation of scooter stores.

4.1.6 The HRA capital programme budgets are reflected in the HRA Business Plan, including the capital costs of maintaining the decent homes standard and of any additional improvements agreed with tenants.

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4.2 **HRA Reserve Balances**

HRA Reserve – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan.

The following table shows the required resources to finance the original budget for 2016/17 and original budget for 2017/18 for the HRA capital programme.

Table 6	**Major Repairs**	**Use of RTB**	**Revenue Contribution**	**Total**

	Reserve	Capital Receipts		
	£000's	£000's	£000's	£000's
Original budget 2016/17	3,762	1,598	3,398	8,758
Original budget 2017/18	2,820	1,516	3,762	8,098

5. RISK MANAGEMENT ISSUES

5.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
East Kent Housing management fee variation	Medium	Medium	Officers are ensuring that the rules laid out in the management agreement are followed. They are still finalising the management fee with East Kent Housing. Any increase in budget will require Member approval
Budget not achieved	High	Low-Medium	Stringent budget monitoring during 2017/18 enabling early corrective action
Additional staffing resources required in relation to new build programme	Medium	Medium-High	Time recording analysis to be undertaken throughout 2017/18 to monitor impact

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 **Legal Officer's Comments** (DK)

There are no legal implications arising from this report.

6.2 **Finance Officer's Comments** (LH)

All financial effects are included in this report.

6.3 **Diversities and Equalities Implications**

This report is in line with the Council's Diversity and Equality policies.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

This report has been prepared by:

Leigh Hall, Group Accountant HRA & Systems
Telephone 01303 853231 Email: leigh.hall@shepway.gov.uk

Adrian Hammond, Housing Strategy Manager
Telephone 01303 853392 Email: adrian.hammond@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

None

Appendices:
Appendix 1 - HRA Revenue Budgets

Appendix 2 - HRA Capital Programme