This Report will be made public on 6 December 2017

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

Report Number **C/17/68**

To:	**Cabinet**
Date:	**14 December 2017**
Status:	**Non-Key Decision**
Head of Service:	**Charlotte Spendley, Head of Finance**
Cabinet Members:	**Councillor Malcolm Dearden, Portfolio Holder for Finance and** **Councillor Alan Ewart-James, Portfolio Holder for Housing**

SUBJECT: **HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL ORIGINAL BUDGET 2018/19**

SUMMARY: This report sets out the Housing Revenue Account Revenue and Capital Budget for 2018/19 and proposes a decrease in rents and an increase in service charges for 2018/19.

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/17/68.**
2. **To recommend to Full Council the Housing Revenue Account Budget for 2018/19. (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 £0.84 per week, representing a 1.0% decrease with effect from 2 April 2018. (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 2018/19. (Refer to paragraph 4.1 and Appendix 2)**

1. INTRODUCTION

1.1 The Housing Revenue Account (HRA) is a ring-fenced account and is outlined and projected within 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 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 2018/19

The proposed HRA Budget for 2018/19, at Appendix 1, shows a forecast deficit of £456k.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 2019 is expected to be £6.145m as shown at Table 1 below.

Table 1	**£000's**
Original estimate of balance at 31 March 2018	**(6,601)**
Movement from Original to Original budgets	
Decrease in depreciation costs (see 2.1.2)	(344)
Decrease in revenue contribution to capital expenditure (see 2.1.3)	(195)
Decrease in loan charges interest (see 2.1.4)	(80)
Decrease in rents and other service charges due to annual rent setting (see 2.1.5)	212
Increase in repairs and maintenance	53
Increase in special management costs	24
Other minor changes	7
	(323)
Deficit 2017/18	779
Original estimate of balance at 31 March 2019	**(6,145)**

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 Depreciation costs

The decrease in depreciation costs relates to the combined decreases of depreciation on HRA dwellings and non-HRA dwellings. This is mainly due to having to charge the real depreciation cost to the HRA instead of using the Major Repairs Allowance as a proxy for depreciation which has been allowed and used in previous years.

2.1.3 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.

2.1.4 Loan charges interest

The loan charges interest has reduced due to the average value of loans held for the HRA being lower in 2018/19 reflecting the maturities in 2017/18.

2.1.5 Rents

As part of the Summer Budget 2015 the Chancellor announced that rents in social housing would be reduced by an average of 1% a year for four years from April 2016.
The decrease in rents within the HRA revenue budget shows the impact of this change (see 3.2 below).

2.1.6 East Kent Housing (EKH) Management Fee

EKH have frozen the 2018/19 management fee and absorbed any inflation and contractual incremental increases in salaries within the base budget through identifying efficiencies.

Therefore, the total budget for the management fee in 2018/19 is £1,974,060.

2.2 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 actual reserve balance on the HRA at the start of 2017/18 was £7.380m, 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 2019.

Table 2	**2017/18**	**2018/19**
	£000's	£000's
Balance as at 1 April	7,380	6,601
Balance as at 31 March	6,601	6,145

The HRA reserve is expected to reduce by £456k from the close of 2017/18 and the end of the financial year 2018/19.

The changes with the introduction of Self-Financing have significantly increased the 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 £0.84 per week or £42.00 per annum. This gives an average rent of £86.35 (over 50 weeks) in 2018/19 (average rent in 2017/18 is £87.18). This decrease in rents is a reduction of approximately £141k in 2018/19 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

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[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.*

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 2018/19 will not be available until late January/February 2018. LHA rates for the area have not changed significantly over the last two years. The indicative 2018/19 affordable rents for the Shepway area are as follows:

Bedsits	£59.09 per week
1 bedroom houses	£86.30 per week
2 bedroom houses	£115.07 per week
3 bedroom houses	£143.84 per week
4 bedroom houses	£168.00 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 (2018/19)** **£**	**Difference between SDC and other authorities** **£**
Shepway	83.03	-
Dover	84.11	1.08
Canterbury	89.82	6.79
Thanet	80.32	(2.71)

- 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 2017 was 3.0%, CPI plus 1.0% is therefore 4.0%. As a result general service charges within the HRA will increase by 4.0% with effect from 2 April 2018.

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 2018/19 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 2018/19 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 £17.40 per week (£870 per year)
- 1 bed flats £19.40 per week (£970 per year)
- 2 bed flats £21.30 per week (£1,065 per year)

A few charges are already set above these levels, and these should be frozen at current levels for 2018/19.

These changes will reduce the amount the HRA subsidises tenants' heating charges to £4,000 in 2018/19 compared to £6,000 in 2017/18.

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 2018/19

The proposed HRA Capital Budget for 2018/19, shown in Appendix 2, is £8.574m. Table 4 below shows the movements in the programme from the 2017/18 original budget to the original budget for 2018/19.

Table 4	**£000's**
Original estimate 2017/18	**8,098**
Reductions in programme	
External Enveloping (see 4.1.1)	(260)
Environmental Works (see 4.1.2)	(175)
Heating Improvements (see 4.1.3)	(135)
Lift Replacements (see 4.1.4)	(100)
Void Capital works	(50)
Sheltered Scheme upgrades	(30)
New Build programme (see 4.1.5)	(28)
Garages Improvements	(15)
Increases in programme	
Fire Protection works (see 4.1.6)	859
Rewiring (see 4.1.1)	200
Replacement Windows and Doors (see 4.1.1)	160
Disabled Adaptations (see 4.1.7)	50
Total increase in expenditure	**476**
Original estimate 2018/19	**8,574**

4.1.1 **Stock Condition Survey (External Enveloping, Rewiring & Replacement Windows and Doors)**

In Spring 2017 East Kent Housing commissioned RAND Associates to undertake a stock condition survey of 30% to identify works required to the council housing stock and to plan the investment needs over the next 30 years. This data has been used to inform the budget setting for 2018/19 showing a decrease in External Enveloping and an increase in the budget for both Replacement Windows & Doors and Rewiring.

The budgets needed across the capital programme will change from year to year depending on the profile of the stock condition data.

4.1.2 **Environmental Works**

The previously anticipated use of the Environmental Works budget for aspects of the new build programme for the use on HRA land is no longer required due to the new build programme using larger non-HRA sites to develop on.

4.1.3 **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.

4.1.4 **Lift Replacement**

There are no lift replacements required in 2018/19.

4.1.5 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 original 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.

4.1.6 Fire Protections works

East Kent Housing has undertaken new Type 3 Fire Risk Assessments of the blocks of flats within the Shepway area which have included assessing 10% of the flats within each block. The recommendations arising from this are in the process of being analysed and prioritised for completion in 2018/19 however, early indications show the need for a substantial increase in the budget. Where there is no demand or a low priority for works in other areas the budgets have been reduced to help fund the fire risk assessment works.

4.1.7 Disabled Adaptations

The increase in disabled adaptations is due to a one-off major adaptation which includes the conversion of an outhouse to a flush floor shower room and internal alterations to a property.

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.

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 2017/18 and original budget for 2018/19 for the HRA capital programme.

Table 6	**Major Repairs Reserve**	**Use of RTB Capital Receipts**	**Revenue Contribution**	**Total**
	£000's	£000's	£000's	£000's
Original budget 2017/18	2,820	1,516	3,762	8,098
Original budget 2018/19	3,500	1,507	3,567	8,574

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	Low	Officers are ensuring that the rules laid out in the management agreement are followed.
Budget not achieved	High	Low-Medium	Stringent budget monitoring during 2018/19 enabling early corrective action
Additional staffing resources required in relation to new build programme	Medium	Medium-High	Time recording analysis to be undertaken throughout 2018/19 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:

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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