Ashfield
DISTRICT COUNCIL

Report To:	CABINET	Date:	19TH FEBRUARY 2018
Heading:	HOUSING REVENUE ACCOUNT (HRA) BUDGETS 2018/19 AND RENT SETTING 2018/19		
Portfolio Holder:	CLLR JACKIE JAMES		
Ward/s:	ALL		
Key Decision:	YES		
Subject To Call-In:	YES		

Purpose of Report

To present for consideration the Housing Revenue Account (HRA) Original Estimate for 2018/19.

Recommendation(s)

To agree the HRA budgets for 2018/19.

To set an average rent decrease of 1% for all council house rents for 2018/19.

To set a garage average rent increase of 4% (average 27p per week) for 2018/19.

To set a weekly amenity charge of 70p for 2018/19.

To leave communal heating charges at the current rate for 2018/19.

To leave water charges at Brook Street Court at the current rate for 2018/19.

To agree the movements in earmarked reserves.

Reasons For Recommendation(s)

To approve the budgets for the HRA 2018/19.

To set a 1% rent decrease as detailed in Section 21 – 28 of the Welfare Reform and Work Act 2016.

Alternative Options Considered (With Reasons Why Not Adopted)

To not approve the budgets and refer for further consideration.

There are no other options with regards to rent setting, to not set the rents as per the prescribed reduction would be contrary to legislation.

Detailed Information

Local housing authorities are required by Section 74 of the Local Government and Housing Act 1989 (the 1989 Act) to keep a Housing Revenue Account (HRA). The HRA reflects a statutory obligation to account separately for local authority housing provision. It identifies the major elements of housing revenue expenditure such as maintenance, administration, and contributions to capital costs and how these are funded, mainly being by housing rent.

2018/19 Original Budget

The overall HRA budget for 2018/19 has moved from a net income of £380k to a net income of £189k, an overall increase in expenditure/reduction in income of £191k. The main variances between 2017/18 and 2018/19 are as follows:

- £135k increase for the proposed 2% pay award and pay increments.
- £36k increase in superannuation backfunding costs.
- £43k increase due to one off service review savings in 2017/18.
- £10k reduction due to one off costs for 2017/18 to assist in transfer of Ashfield Homes.
- £8k reduction in the training program.
- £38k reduction in the housing vehicle fleet costs.
- £37k increase in subcontractor costs from inflationary price increases.
- £15k reduction in Council Tax charges for Void Properties.
- £25k reduction from one off stock and feasibility surveys in 2017/18.
- £20k increase in bad debts provision
- Rental income from tenants is reduced by £307k in 2018/19, this is as a result of the 1% rent reduction, as well as loss of properties through the Right to Buy scheme.
- Additional rental income from the introduction of the amenity charge at £226k.
- £12k increase in Void Property recharge income.
- There is a net increase of £110k for the capital financing costs. The budget for the Capital Programme is £369k more than 2017/18. This is offset by a decrease of £259k in interest charges.
- Recharges from the General Fund include a reduction of £173k from Corporate Leadership Team, Cashiers, Administration and IT.

Summary Budgets are shown at Appendix A

Rent Setting

Under the self-financing regime, operational since 1 April 2012, landlord services are funded almost entirely from rents collected. The amount to be collected in rents has been impacted upon by the new legislation introduced under the Welfare Reform and Work Act 2016. With effect from April 2016 Paragraph 21 – 28 of the Act requires social housing rents to be reduced by 1% a year for 4 years from a frozen 2015/16 base line, 2018/19 will be the 3rd year of the reduction, which includes both social rents and affordable rents.

Beyond 2019/20 the Government has announced that future rent increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020/21. If the announcement is converted into legislation this will give the council the security and certainty it needs to formulate a sustainable 30 year business plan for the HRA.

Garage Rents

Occupancy in garages has remained stable over the last year. There is little demand for those garages that are currently empty. The garages that are currently occupied have a higher demand, with some areas operating a waiting list. It is recommended that the garage rents are increased by 4% for 2018/19 (September 2017 CPI 3% plus 1%) which will generate an additional income of £6.3k. The new rents will be as shown in the table below.

	Rents 2017/18 £	Rents 2018/19 £	Increase £
Garages			
Band A	5.95	6.19	0.24
Band B	6.65	6.92	0.27
Band C	7.37	7.66	0.29
Plots			
Band A	0.85	0.85	0.00
Band B	1.00	1.00	0.00

Amenity Charge

The Government introduced a 4 year rent reduction scheme which has resulted in the Council having around £6m less to spend on the housing services and upkeep of the properties. With effect from 2nd April 2018, the Council is proposing to create a new and separate service charge from the weekly rent, much like other housing providers already do. This will be an amenity charge.

This charge will contribute to the cost of providing the following existing services which do not fall within the provision of the rent:-

- Grounds Maintenance/Estate Management of housing open space
- Community Safety

The Tenancy Agreement already permits the Council to charge a rent and levy other charges to cover the costs associated with the tenancy/estate management.

A proposed change to the Tenancy Agreement will be required to add the following;

> "Amenity Charge £0.70 per week and will be varied in line with the rent policy."

The above is the only change the Council is seeking to make in relation to this matter.

The amenity charge has been calculated on the basis of the services that the Council currently provides. The charge is only a contribution to the charge incurred and does not cover the full cost of the services provided.

The amount of the amenity charge will be reviewed annually.

Communal Heating Charges (District Heating)

A review of the communal heating charges in 2017/18 has been carried out and it is recommended that the charge for 2018/19 be held at the same level as 2015/16. Users of communal heating pay a weekly charge designed to cover the cost to the Council for providing this heating.

A further review will be carried out at the end of the year and if there is a material over recovery either this will be refunded to tenants or future charges will be reduced. However it is widely expected that utility costs will rise over the coming year.

Water Charges at Brook Street Court

There is a weekly service charge payable on a 48 week basis, to cover water charges. The charge relates to the apartments only and the charge depends on whether they are tenants of a 1 or 2 bed unit. As water charges and water usage changes over time, the service charge will be reviewed each year to ensure it accurately reflects the costs being incurred. It is recommended that the charge for 2018/19 be held at the same level as 2017/18.

Rent Rebate Subsidy Limitation (RRSL)

RRSL is the charge to the HRA for rent rebates (housing benefits) where the actual rent is higher than the limit rent set by the Ministry for Housing, Communities and Local Government (MHCLG). This charge compensates for the reduction to the housing benefit subsidy in the General Fund.

The data for 2018/19 limit rents has not been released by MHCLG yet. An estimation has been made and forecasts that the actual rent will not exceed the limit rent in 2018/19 so no charge to the HRA has been forecast. However, the 2018/19 average rent figure of £67.44 is getting closer to the estimated RRSL rate for 2018/19 at £68.02. This will continue to be monitored and there may be a cost to the HRA in future years.

Major Repairs to the Housing Stock

The Major Repairs Reserve (MRR) is utilised to fund the capital expenditure required to maintain the Council's housing stock. The cost of this investment is derived from a 30 year stock condition survey which was completed in 2015/16.

The MRR receives a contribution from the depreciation provision and allowable capital grants/receipts are also utilised. Any shortfall in funding is then made up from the HRA.

The original estimate for 2017/18 forecast a contribution from the HRA of £4.6m which has been rescheduled to £3.7m then increased in 2018/19 to £4.8m.

Capital Financing Costs

The interest cost for the HRA is calculated by applying the Item 8 Determination as prescribed by DCLG (now MHCLG) in the Self Financing Determination issued in 2012. A fixed rate of interest is applied to the debt attributed to the HRA to arrive at an interest cost.

Welfare Reform and Work Act

The implementation of Universal Credit is now underway in Ashfield. At the end of December 2017 there were 96 Council tenant claimants, 70 of which are in some level of rent arrears. However, 56 of these were already in arrears before claiming Universal Credit. There will be the wider roll out of "Full Service" Universal Credit which, after previous delays, is expected to take place in November 2018.

The budget for the contribution to the bad debt provision for 2018/19 is only £20k greater than 2017/18. The expected impact of Universal Credit has been calculated to be greater than this, however there has been an improvement in the current level of bad debt as a result of tightening up of rent collection procedures.

Housing and Planning Act

There was originally 2 elements of the Housing and Planning Act that would impact on the HRA. The key areas were:

- End of Lifetime Secure tenancies to new tenants.
- Extension of the Right to Buy Scheme and the sale of high value Council homes.

Part of the Act is still awaiting an official approval that will end the right of social housing tenants to have a lifetime (secure) tenancy. These will be phased out gradually and all new tenants will be offered fixed term tenancies of up to 5 years (there will be some exceptions for vulnerable tenants or those with children). These new tenancies will need to be reviewed at the end of the tenancy period and may or may not be renewed for another 5 year period. One aim of the review will be to assess whether the tenant is now able to leave social housing as their circumstances have improved. The policy change could have implication on the HRA in future years as it could cause a higher turnover of void properties.

There has also been a delay in the implementation of the sale of high value council homes and the associated levy that will be imposed. Local authorities will not be forced to sell high-value council homes until at least April 2019 after lobbying from the sector. As reported last year, the Council will be required to consider the sale of high value council properties when they become vacant to fund the discounts given to the housing association tenants as part of the extension of Right to Buy scheme to Housing Associations.

Earmarked Reserves

A review of the HRA earmarked reserves has been undertaken following the return of the Housing Management Service back into the Council.

The HRA has the following proposed earmarked reserves as shown in the table below:

Movement on Earmarked Reserves	**Balance as at 1st April 2017/18** £	**Revised Budget 2017/18** £	**Balance as at 31st March 2018** £	**Original Budget 2018/19** £	**Balance as at 31st March 2019** £
Revenue Grants Reserve	24,830	0	24,830	0	24,830
Eco Funding Reserve	258,360	5,070	263,430	0	263,430
Insurance Reserve	84,779	50,000	134,779	50,000	184,779
Corporate Change Reserve	56,588	135,862	192,450	-76,000	116,450
Technology Investment	52,475	200,000	252,475	-100,000	152,475
Welfare Reform Reserve	0	200,000	200,000	-50,000	150,000
Total	**477,032**	**590,932**	**1,067,964**	**-176,000**	**891,964**

The existing earmarked reserves comprise of the following:

The HRA revenue grant reserve comprises of £19k towards the costs of Welfare Reform and the remaining £6k for work undertaken in completing additional housing returns.

The Eco-funding reserve was created from funding received in 2015/16 from installing energy saving boiler systems in Titchfield and Sherwood Courts. This was established to help fund future carbon saving or renewable energy works.

The HRA insurance reserve was established in 2016/17 to fund any damage to the Council's housing stock. All claims for housing stock damages will be made against the new HRA insurance reserve which will continue to be topped up by £50k per annum for the financial years 2016/17 through to 2020/21.

It is proposed to make the following changes from the general HRA reserve to the earmarked reserves:

- To add a further £5k to the Eco-funding reserve due to additional funding received in year from the energy saving schemes mentioned above.

- The Corporate Change Reserve (CCR) is for Redundancy & Pension Strain costs further to service review outcomes and reduction in Establishment. The current budget includes provision for £56k. However £54k is being used in 2017/18 and an additional £190k is sought to fund further possible establishment reductions. This is an estimate only and if unutilised, funds will remain in the CCR.

- As the transformation agenda continues the need for IT investment has become ever pressing. This is essential to provide the customer experience expected from an organisation of this size and to drive efficiencies within the organisation. The purpose of contributing £200k from the general HRA reserve to the earmarked reserve is to support the upgrading of out of date technology, to support the introduction of new technology, to support the move to digital delivery of services and improve customer experience and to support the move to more agile working.

- The wider roll out of Universal Credit will result in a significant increase in customer contact as the vast majority of tenants will now have to liaise with us directly to make their rent payments. The Full Service Universal Credit is expected in November 2018 and the purpose of setting up the £200k earmarked reserve from the general HRA reserve is to support and react to the high volume of issues raised by the welfare reforms and to help mitigate the impact of the changes on the Council.

Housing Revenue Account 2018/19 Original Budget

The main elements of the HRA have been discussed within this report and reflected in the Summary HRA Budget proposed for approval.

	2017/18 Original Budget	2017/18 Revised Budget	2018/19 Original Budget
	£	£	£
Summary Budget for Housing Revenue Account			
Service			
Housing Revenue Account	(10,569,365)	(11,359,918)	(10,346,700)
Housing Courts Schemes	986,670	986,670	966,240
Tenancy Services and Housing Management	1,274,180	1,268,460	1,189,400
Lettings	664,696	661,416	652,180
Technical Services Management	(729,270)	(729,270)	(750,600)
Technical Services Responsive and Void Management	3,702,500	3,700,550	3,796,720
Technical Services Support Services	1,022,364	1,017,104	991,870
Technical Services Planned and Cyclical	3,065,654	3,060,304	3,094,190
Procurement	50,051	47,491	50,170
DLO	152,109	128,052	167,660
Rent Accounting	4	4	0
Brook Street Office	0	0	0
TOTAL	**(380,407)**	**(1,219,137)**	**(188,870)**
Subjective Analysis			
Employee Expenses	5,132,467	5,014,052	5,325,250
Premises Expenses	7,048,289	7,048,289	7,148,700
Transport Related Expenses	470,256	470,256	424,270
Supplies & Services	3,688,980	3,848,980	4,215,280
Transfer Payments	0	0	0
Income	(29,944,190)	(29,999,190)	(30,350,080)
Sub Total Excluding Capital Financing Costs & Central Recharges	**(13,604,198)**	**(13,617,613)**	**(13,236,580)**
Capital Financing Costs	11,467,170	10,692,170	11,582,620
Central & Dept Recharges In	4,340,361	4,290,046	4,128,340
Central & Dept Recharges Out	(2,583,740)	(2,583,740)	(2,663,250)
TOTAL	**(380,407)**	**(1,219,137)**	**(188,870)**
Net Operating Expenditure	**(380,407)**	**(1,219,137)**	**(188,870)**
Less Adjusting Capital Entries	11,467,170	10,692,170	11,582,620
Total Net Operating Expenditure after Adjusting Capital Entries	**(11,847,577)**	**(11,911,307)**	**(11,771,490)**
Borrowing and Capital Financing Costs			
Interest Payable and Other Charges	0	0	0
Item 8 Contribution	3,542,530	3,542,530	3,283,630
Depreciation	3,401,770	3,401,770	3,466,330
Direct Revenue Financing of Capital	4,522,870	3,747,870	4,832,660
Total Borrowing and Capital Financing Costs	**11,467,170**	**10,692,170**	**11,582,620**
Net Expenditure to be Financed from Housing Revenue Account	**(380,407)**	**(1,219,137)**	**(188,870)**
Net Deficit/ (Surplus) before movement from/(to) Reserves	**(380,407)**	**(1,219,137)**	**(188,870)**
Housing Revenue Account			
Balance Brought Forward	(23,746,330)	(23,746,330)	(24,374,535)
In year (Surplus)/Deficit	(380,407)	(1,219,137)	(188,870)
Transfer to/(from) Earmarked Reserves	50,000	590,932	(176,000)
Balance Carried Forward	**(24,076,737)**	**(24,374,535)**	**(24,739,405)**

HRA Business Plan 2017/18 to 2021/22

The HRA Business Plan for the next five years shown in Appendix B has been updated to include the revised estimate for 2017/18 and original budget 2018/19. The average expenditure for the 5 year period is £0.5m, the 30 year business plan shows that this will continue at an average expenditure of £0.5m from 2022/23.

Implications

Corporate Plan:

- The financial position of the HRA has a direct impact on the Corporate Plan. Sustainability of the HRA will assist in maintaining existing homes and increase the supply of affordable homes in the district in the future.

Legal:

The Council is required by the LGHA 1989 to have a separate Housing Revenue Account.

The information contained in this report details how the Council complies with the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016.

Finance:

This report is effective from 19/02/2018 and has the following financial implications:

Budget Area	Implication
General Fund – Revenue Budget	Further reports on this agenda will cover other budget areas.
General Fund – Capital Programme	Further reports on this agenda will cover other budget areas.
Housing Revenue Account – Revenue Budget	Contained within the report.
Housing Revenue Account – Capital Programme	Contained within the report.

Risk:

Risk	Mitigation
Final Limit Rent lower than estimated and incurring a Rent Rebate Subsidy Limitation Charge	Estimates are based on previous year's methodology.

Human Resources:

Changes to terms and conditions have negotiated and consulted on at regional and local level. With regards to the reduction in establishment all affected employees are consulted and relevant procedures and policies are adhered to for a fair and consistent approach.

Equalities:

Equalities implications are considered as part of the process in developing individual policy or budget changes.

Other Implications:

No other implications have been identified in this report.

Reason(s) for Urgency (if applicable):

N/A

Reason(s) for Exemption
N/A

Background Papers
None

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