Waveney District Council

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AUDIT & GOVERNANCE COMMITTEE

Thursday, 11 January 2018

HOUSING REVENUE ACCOUNT BUDGET (REP1603)

EXECUTIVE SUMMARY

1. Under the Self-financing regime, the future resources and spend of the HRA are based on local decisions. This report outlines the Housing Revenue Account (HRA) Income and Expenditure Budgets for the financial years 2018/19 to 2021/22, including revisions to the 2017/18 Budget. In addition to this, a summary of its reserves and balances is included. The HRA budgets are fully funded from existing funds to meet the Council's HRA spending plans, including the Capital investment programme and reserve balances as per the HRA Financial Business Plan. At this time there is no use being made of the £11 million borrowing headroom available to the HRA.

2. The report provides details on the affects of the Welfare Reform Act 2012, the 1% decrease on Affordable and Social Housing Rents from 2016/17 to 2019/20, and Government guidance on Affordable and Social Housing Rent increases from 2020/21 onwards.

3. The Committee is asked to recommend that Council approves the:
   - HRA budget for 2018/19, the revised budgets for 2017/18, and the indicative figures for 2019/20 to 2021/22;
   - Movements in Reserves and Balances;
   - Reduction in the weekly housing rent of 1% for 2018/19, giving an average weekly rent of £83.06 over a 50 week collection year;
   - Service charges and associated fees for 2018/19; and
   - Changes affecting public and private sector housing and welfare also to be noted.

Is the report Open or Exempt?	Open

Wards Affected:	All Wards within the District

Cabinet Member:	Councillor Chris Punt Cabinet Member for Housing Councillor Bruce Provan Cabinet Member for Resources

Supporting Officer:	Homira Javadi Chief Finance Officer Tel: (01394) 444529 E-mail: homira.javadi@eastsuffolk.gov.uk

1 BACKGROUND- STATUTORY FRAMEWORK

1.1 The Housing Revenue Account (HRA) reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for Local Authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the Council's housing stock, offset by tenant rents, service charges and other income. The Council has a statutory responsibility to set a balanced HRA budget (i.e. all budgeted expenditure must be matched by income).

1.2 The Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016 made specific and significant provision for changes to the law affecting social housing providers with effect from April 2016. These changes included the statutory reduction of rents by 1% each year for four years, the higher-value levy on void sales, and revisions regarding the granting of new social housing tenancies.

2 KEY ISSUES AND CONSIDERATIONS

2.1 For the first time in many years the Government implemented legislations regarding social rents, by the inclusion of sections within the Welfare Reform and Work Act 2016 compelling Councils and Housing Associations to reduce rents by 1% each year from April 2016 to April 2019 inclusive (i.e. 2016/17 to 2019/20). The move has been made by the Government in an attempt to help reduce the country's Housing Benefit bill.

2.2 Previous to this announcement, the HRA Financial Business Plan was modelled on an annual rent increase of 3.1%. By reducing the rents by 1%, the impact is a 4.1% decrease year on year, on the rental income forecast until 2019/20. This subsequently had a knock on affect on all future years thereafter. This had a significant impact on the HRA Financial Business Plan, as the Business Plan has forecasted a shortfall on rental income of £7.7 million over the four year period alone.

2.3 Whilst the impact of the compulsory rent reduction was contained within the existing parameters of the HRA, the effect of four years of enforced reductions has resulted in reduced funds available to invest in the new Housing Development Programme. Any additional capital works have to be carefully considered, to maintain a balanced budget.

Pay to Stay

2.4 After several rounds of consultation, central Government enacted proposals around a compulsory version of the so-called "pay-to-stay" policy, whereby higher-earning tenants are automatically charged a higher rent (whether at market or "affordable" levels) within the Housing and Planning Act 2016. This policy was due to commence in April 2017.

2.5 On 21 November 2016 the Minister for Housing stated that the policy would no longer be made mandatory from April 2017. Local Authorities and Housing Associations continue to be able to introduce the policy on a voluntary basis. The scheme would have been costly and time consuming to implement and maintain. It is unlikely many tenants would have seen their rents increase. Waveney District Council will not be implementing pay-to-stay and has no plans to do so at this stage.

Higher Value Void Property Sales

2.6 The Housing and Planning Act 2016 contains sections setting out the Government's intention to require Local Authorities to remit sums to them equivalent to the value of sales of higher-value void properties. The Department of Communities and Local Government (DCLG) intend to estimate this figure in advance and therefore Local Authorities could, if they were able, finance this by other means than void property sales. It is the Government's intention to part-fund the extension of Right to Buy to Housing Association tenants by this route.

2.7 In late November 2016 DCLG indicated that since the voluntary Right to Buy extension has been supplanted as a policy priority by the need to prepare for the United Kingdom's exit from the European Union, the policy has been formally postponed to some future date. At this point, like most other Local Authorities, the Councils HRA has not set aside any budget for this, due to the uncertainties surrounding it. It is flagged as a potential future risk.

Right to Buy Scheme

2.8 In April 2012 the Government reinvigorated the Right to Buy (RTB) scheme by increasing the maximum discount available to 70% or £78,600 as at 6 April 2017, which ever is lower. This figure increases each year in line with inflation. In 2012 the Council entered into an agreement with the DCLG to retain a share of its RTB receipts to reinvest in the provision of new affordable homes. The receipts used can only fund up to 30% of any investment into new affordable homes.

2.9 From April 2012 the number of properties sold through the RTB scheme has steadily increased. In 2012/13 only 9 properties sold through the scheme, compared to 27 in 2016/17. As at December 2017, 20 properties have been sold through the schemes with four months remaining. Future year estimates have been increased to 30 per annum inline with the increasing trend.

2.10 The implications of RTB sales is a reduction in dwelling rents received. The annual income lost through RTB sales in 2016/17 was £118k, adding to the importance of increasing the HRA housing stock. These are taken into account when setting the budgets.

3 WELFARE REFORM

3.1 The Welfare Reform Act 2012 introduced major changes to the way people receive housing benefit and other welfare benefits which present new risks to HRA income collection from tenants.

Universal Credit

3.2 The welfare reform introduced Universal Credit. This is to replace most existing working-age benefits with a single payment made directly to the claimant. The new Universal Credit will also limit the total amount of benefit a household can claim. As a result of this change there is a high risk that income previously guaranteed to the HRA may now not be collected.

3.3 Universal Credit was rolled out across the country and was introduced in Lowestoft and Beccles in March 2015. The introduction initially only applied to people that were single and would have previously applied for Jobseekers Allowance. During late spring 2016, this roll out has been expanded to Lowestoft to include all new claims to what is called "legacy benefits". These are benefits that currently exist; Housing Benefit, Working Tax Credit, Child Tax Credit, Income Support, Jobseekers Allowance and Employment and Support Allowance.

3.4 Universal Credit has given cause for concern with Landlords nationally. Landlords, including Local Authorities who were once guaranteed income, now have to rely on claimants to make payments. Measures (see section 3.10) are being implemented to monitor the effects of Universal Credit since the roll out in spring 2016.

3.5 From April 2018, claimants wait time will reduce from 6 weeks to 5 weeks. If they are already receiving Housing Benefits, they will continue to receive this for the first 2 weeks of the claim process. This should help reduce pressure on tenants, and potentially have a positive impact on future rent arrears.

Under-Occupation Charge

3.6 The Welfare Reform Act also gave the Government power to introduce the new 'under-occupation charge'. This came into effect in April 2013. The criteria means that any working-age household deemed to be under-occupying their home receives a cut in their housing benefit (or Universal Credit). The cut is a fixed percentage of the housing benefit-eligible rent.

3.7 Government has set this at a 14% cut for one extra bedroom and a 25% cut for two or more extra bedrooms. This means in essence for every £100 in rent, tenants will need to contribute an additional £14 or £25 per week from their own resources. To help alleviate the pressure of this penalty, the Council's HRA offers the incentive of 'Cash-for-Moving'. This is a widely used scheme across Councils to encourage tenants to downsize. Tenants can bid for a smaller property on Gateway to Home-Choice, and if successful the tenant could receive up to £2,000 depending on the number of bedrooms given up. The scheme was in place before the welfare reform to encourage better use of the housing stock. In 2016/17 13 tenants took up this incentive.

3.8 Taking the Welfare Reform Act 2012 into account, the Council established a HRA Hardship Reserve in 2012/13 with a fund of £500k, recognising the unexpected and exceptional difficulties tenants might face arising from these changes. No use of this reserve has been made in the five years since it was set up, and at this time no further contributions to the reserve are budgeted for. The need for the reserve will be reassessed in 2018/19.

Rent Arrears

3.9 In addition to the loss of rental income, there is growing concern regarding rent arrears. In 2015 the Housing Benefit cap was reduced from £26k to £20k. This, combined with the roll out of Universal Credit in Waveney in spring 2016, the under occupancy charge, and other general factors relating to the economy, has increased the risk of rent arrears not being collected.

3.10 Rent arrears as at 31 March 2017 were at £739k, compared to £511k the previous year. More recent reports taken from December 2017 show these have increased further to £1.066 million. This is an increase of £555k (52%) in just over 18 months. This represents a strong correlation with the roll out of Universal Credit. Measures are being implemented to help manage the situation. A full time Universal Credit Officer is in post, helping claimants with their Universal Credit journeys. Other measures will be achieved through the digital transformation programme, which is exploring new approaches such as improved data collection, text messaging services to tenants, and new online portals for tenants to manage their rent accounts. New tenant sign ups now take place at the Marina Centre, combining the process with applying for Universal Credit, therefore reducing waiting times. Work is on going, to help manage the effects of Universal Credit, and in turn reducing rent arrears. This will continue to be monitored closely by the Tenants Services Manager.

4 SELF-FINANCING ARRANGEMENT

4.1 The Self-Financing regime was introduced in April 2012. The Council had to take on a significant amount of debt (£68 million) in exchange for not paying future Housing Subsidy. This change is anticipated to be beneficial to the HRA over the long-term. It also means the future resources and spend of the HRA are now based on local decisions.

4.2 A 30 year financial business model is used to support the delivery of the HRA under the Self-Financing regime. It makes assumptions regarding the level of income available and the key risks facing the housing service delivery within this timeframe. It programmes in the years the Council expects to pay back the current borrowing, whilst delivering the needs of the service.

4.3 The HRA funds the costs of borrowing for the initial debt settlement. The Council has chosen to incorporate this debt into the Council's overall borrowing portfolio, creating a single pool and charging interest to the HRA in proportion to the debt it holds.

4.4 Self-Financing must not jeopardise the Government's priority to bring borrowing under control. It will give Council landlords direct control over a very large rental income stream, so borrowing financed from this income must be affordable within national fiscal policies as well as locally. Therefore, a limit has been placed on the total housing debt that each Local Authority can support from its HRA. Waveney's HRA limit is currently placed at £87.26 million.

4.5 On the 22 November 2017, as part of the Autumn Budget, Government announced a lift on the borrowing cap on Local Authorities in high affordable housing demand areas. Local Authorities will be invited to bid to increase their borrowing cap from 2019/20, up to the total of £1billion by the end of 2021/22. It is yet to be understood if Waveney will be deemed as a high affordable housing demand area, or if it even requires an increase in its borrowing cap.

4.6 The total debt for the Council's HRA is currently at £76 million (£68 million from the self-financing settlement and £8 million pre Self-financing), leaving a £11 million borrowing headroom available to the HRA at this time. The HRA spending plans, including its capital investment programme, are currently fully funded from existing resources. Therefore, at this point, there is no need to make use of this additional borrowing.

4.7 Under Self-Financing, Local Authorities now have the opportunity with greater certainty to adopt a more strategic, long term approach to ensure that housing needs are met, that the housing stock is maintained, and where possible additional homes are provided. Waveney have used this strategic approach to introduce the Housing Development Programme.

5 HRA 2017/18 REVISED BUDGET AND FORWARD BUDGETS

5.1 The items set out below represent the key variations between the 2017/18 original budget position (movement in the HRA balance) and the 2017/18 revised budgets.

	£'000
Original 2017/18 Budget Position	2,447
Add;	
Increase transfer to Debt Repayment Reserve (see paragraph 5.2)	1,560
Contribution towards expenditure -Contra against DRF saving (see paragraph 5.3)	300
Bad Debt Provision (see paragraph 5.4)	258
Additional Staffing (see paragraph 5.5)	198
Reduced income- slippage in new build programme/increase in RTB's	159
Increase in Norse Services (see paragraph 5.6)	41
Window Seals at St Peters Court	36
Increased contribution to Pension Backfunding	30
Increased IT software costs	15
Other minor changes	1
Less:	
Reduced use of DRF (see paragraph 5.7)	(1,900)
Depreciation Charge reduced	(298)
Supporting People Funding not originally anticipated for 2017/18	(58)
External funding from the HCA for Site Investigations in 2017/18	(53)
Additional Service Charges income (see paragraph 5.6)	(42)
Share of Debt repayment & Interest on Debt reduced	(40)
One off additional income for Leaseholder charges & other rents	(31)
Interest on cash balances	(9)
Revised 2017/18 Position	**2,614**

Increased transfer to Debt Repayment Reserve

5.2 The HRA's working balance had increased to 34.58% of the total income received as at the 31st March 2017 (see Appendix C). This is higher than originally anticipated. Increasing the transfer to the debt repayment reserve in 2017/18 brings this balance down to 22.7% as at 31st March 2018. This gives the HRA the ability to reduce future year transfers to the debt repayment reserve, whilst servicing the debt as planned. If in future years, the HRA has any increased surpluses, these will be transferred to a new Housing Development Reserve.

Contribution towards Expenditure

5.3 Due to accounting methods, budgeted income for the allowable debt aspect of RTB receipts will be held as a capital receipt. Therefore the budget has been removed for this income. The capital receipt will now be used to part fund the Capital Programme, reducing down the use of the Direct Revenue Financing (DRF). The removal of this income budget is off set against the reduced DRF budget, giving a nil effect to the bottom line of the HRA.

Increased Bad Debt Provision

5.4 The bad debt provision as at 31 March 2018 is calculated using actual rent arrear statistics, and outstanding debtor payments as at December 2017.The provision for Bad Debt is set at 4.4% of budgeted income, or £902k.

New Housing Strategy, Projects and Development team

5.5 Due to the growing Housing Development Programme, a number of new staff joined the housing team in 2017/18. This includes the Housing Development Manager, Project Development Manager, Housing Projects Lawyer, and the Housing Strategy Manager. The additional staff was approved by Cabinet on 16 March 2017, in report REP1547 and also on the 12 July 2017, in report REP1670.

Increase in Norse Services and Service Recharges

5.6 The additional Norse service fee is off set against the corresponding service charges income for the provision of Grounds Maintenance service for the sheltered schemes. This is recharged to the tenants of the schemes. This recharge is eligible for Housing Benefits.

Reduction in Direct Revenue Financing

5.7 Direct Revenue Financing is the use of Rental Income to fund the HRA Capital Programme. The reduction in the Direct Revenue Financing for the year is partly in line with the rephrasing of the related capital projects. It is also due to capital receipts held being used to part fund the Capital Programme. (See paragraph 5.3).

5.8 The items set out below represents the key variations between 2017/18 revised budget and the 2018/19 budget.

	£'000
Revised 2017/18 Budget Position	2,614
Add;	
Increase use of DRF (see paragraph 5.8.1)	348
Depreciation Charge	199
New costs relating to Housing Project & Development team (see paragraph 5.8.2)	186
Increased costs relating to Repairs & Maintenance	136
Supporting people funding not anticipated for 2018/19 (see paragraph 5.8.3)	58
No external funding anticipated for 2018/19 (see paragraph 5.8.3)	53
Reduced rental income due to 1% rent reduction (see paragraph 5.8.4)	48
Reduction in other rents & wayleaves (see paragraph 5.8.5)	28
Less;	
Reduced transfer to Debt Repayment Reserve (see paragraph 5.8.6)	(2,600)
Reduced transfer to Bad Debt provision (See paragraph 5.8.7)	(245)
Other minor changes	(1)
2018/19 Budget Position	**824**

5.9 There is a substantial movement between the 2017/18 revised budgets and the 2018/19 budgets. The main contributing factors to this are as follows;

1. An increase in Direct Revenue Financing is due to slippage of works from 2017/18 into 2018/19 on the Housing Development Programme. The increase does not match the decrease in the revised 2017/18 as other methods of funding will be used, such as the Major Repairs Reserve (MRR).

2. 2017/18 only had a part year of additional staffing, (See paragraph 5.4) where as 2018/19 has a full year. There are also increased revenue costs relating to the growth of the Housing Development Programme from 2018/19.

3. In 2017/18 Funding was received for Supporting People. This and the external funding from the HCA are not anticipated to be received in 2018/19.

4. The Government's policy to reduce affordable and social rents by 1% will result in reduced rent income.

5. In 2017/18 back funding for previous years income due relating to renewed lease agreements were received. These were one off additional income, and will not be received in 2018/19.

6. The payment to the Debt Repayment Reserve in 2017/18 was increased to intentionally reduce future year transfers. HRA funds can then be redirected to new projects and developments.

7. The HRA Bad Debt Provision is currently set at 4.41% of total income. As rents will decrease in 2018/19, it is not anticipated the bad debt should increase.

5.10 The following table summarises the 2017/18 revised budget and forward budgets to 2021/22.

	2017/18 Original £000	2017/18 Revised £000	2018/19 Budget £000	2019/20 Budget £000	2020/21 Budget £000	2021/22 Budget £000
Income						
Dwelling Rent	(18,872)	(18,757)	(18,709)	(18,793)	(19,601)	(20,433)
Non-Dwelling Rent	(176)	(190)	(183)	(187)	(192)	(196)
Service & Other Charges	(1,186)	(1,228)	(1,283)	(1,294)	(1,305)	(1,317)
Leaseholders Charges for Services	(10)	(27)	(10)	(10)	(10)	(10)
Contribution towards Expenditure	(333)	(144)	(33)	(33)	(33)	(33)
Reimbursement of Costs	(50)	(124)	(74)	(79)	(78)	(83)
Interest Income	(81)	(90)	(93)	(98)	(100)	(41)
Total Income	**(20,708)**	**(20,560)**	**(20,385)**	**(20,494)**	**(21,319)**	**(22,113)**
10% of total income	**(2,071)**	**(2,056)**	**(2,039)**	**(2,049)**	**(2,132)**	**(2,211)**
Expenditure						
Repairs & Maintenance	3,665	3,665	3,765	3,806	3,831	3,854
Supervision & Management	2,980	3,122	3,194	3,324	3,312	3,341
Special Services	1,134	1,355	1,540	1,553	1,570	1,584
Rents, Rates and other Charges	90	82	84	85	87	87
Movement in Bad Debt Provision	(21)	237	(8)	5	36	38
Contribution to CDC & Pension Backfunding	608	651	616	586	586	586
Capital Charges	3,564	3,267	3,467	3,598	3,693	3,738
Interest Charges	2,305	2,265	2,270	2,275	2,295	2,310
Revenue Contribution to Capital	6,830	4,934	5,281	4,730	5,685	4,957
Transfer to Earmaked Reserves	2,000	3,596	1,000	1,000	1,000	1,000
Total Expenditure	**23,155**	**23,174**	**21,209**	**20,962**	**22,095**	**21,495**
Movement in the HRA balance	**2,447**	**2,614**	**824**	**468**	**776**	**(618)**
HRA Balance carried forward	**(4,800)**	**(4,633)**	**(3,809)**	**(3,341)**	**(2,565)**	**(3,183)**

5.11 The above table demonstrates a healthy HRA working balance. The actual carry forward balance from 2016/17 was £7.247 million. Best practice is considered to have a minimum working balance that approximates to 10% of the total income. The revised HRA revenue working balance for 2017/18 is £4.633 million. This is 22.64% of the total income, demonstrating that the forecast is well within the acceptable level. As the balance is drawn down between 2017/18 and 2020/21, the forecasted balance remains well above the required 10% minimum.

6 RENTS, SERVICE AND OTHER CHARGES

6.1 The HRA Financial Business Plan was previously updated with the new reduced level of income. It has since been updated with the revised 2017/18 budget, and the 2018/19 to 2021/22 budgets. It demonstrates that the Council still has the ability to service its current debt, maintain its housing stock at its existing levels, and proceed with the Housing Development Programme as it currently stands. However, anything additional to this will need further consideration.

6.2 Following an announcement on the 4th October 2017 from DCLG, Local Authorities can increase dwelling rents by CPI +1% for the five years following the 1% rent reduction (2020/21 to 2024/25). CPI is currently 3%. The HRA Financial Business Plan is taking a prudent approach to budgeting dwelling income for this period, forecasting a 3% increase (when potentially it could be 4% or higher). These future year assumptions will continue to be monitored.

6.3 The Government expects the majority of new properties to continue being let at affordable rent. Affordable rent allows the Council to set rents at a level that are typically higher than social rents. The intention behind this flexibility is to enable Local Authorities to generate additional capacity for investment in new affordable homes. The Council is applying affordable rents to new or re-let properties and is able to do so as it has an agreement in place with the Secretary of State. The agreement allows the Council to retain Right to Buy receipts for investment in new affordable rented homes.

6.4 The current average weekly rent as at the 13 December 2017 is £83.90, based on a 50 week collection year. This is a decrease of £0.68 from 2016/17. The estimated average weekly rent for 2018/19 is £83.06, a further reduction of £0.84 between 2017/18 and 2018/19.

Service Charges

6.5 Service Charges are those charges payable by tenants to reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities, e.g. heating services and communal facilities in sheltered accommodation (Grouped Homes).

6.6 Under the Self-Financing regime, Councils can review its service charges annually. Service charges should be sufficient to cover the cost of providing the service and are not governed by the same factors as rents. In previous years Local Authorities would endeavour to keep increases for service charges within the rent increase. From 2016/17 onwards, due to the rent decrease, this is not the case.

6.7 The proposed service charges for 2018/19 are set out in Appendix A of this report. The costs of providing the services have been reviewed and set at a level to ensure that the costs are recovered. The HRA does not make a profit on service charges; these are purely to recover HRA costs.

6.8 Many of the Service charges, outlined in Appendix A will not increase in 2018/19. This is due to contracts that run for more than one year for a fixed price. As the cost of the services will not increase, neither will the subsequent service charge.

6.9 Grouped Home service charges relate to services provided to sheltered schemes and communal utility costs. The proposed general service charge for grouped homes for 2018/19 is set at an average weekly charge of £13.40 based on a 50 week collection year. This is an increase of £0.48 compared to 2017/18. The new charge reflects the increase in costs to providing the service.

6.10 The average heating charge is set to increase in 2018/19, for the first time in four years. The 2018/19 average Grouped Homes heating charge is £14.31 based on a 50 week collection year. This is an average weekly increase of £3.06 compared to 2017/18 (Following a decrease of £1.25 in 2017/18, £0.29 in 2016/17 and £1.77 in 2015/16). Most energy efficiencies have been realised in pervious years, therefore the increase reflects the increases in heating costs.

6.11 Garage rents are also set out in Appendix A. Garage rents are also collected on a 50 week collection period. For 2018/19 it is proposed that the weekly garage rent for both Council tenants and non-tenants is increased by 3.5%. Tenant's garage rents will increase from £6.20, to £6.42, an increase of £0.22 on the 2017/18 charge. The non-tenant garage rent will increase from £9.10 (Inclusive of VAT), to £9.42, an increase of £0.32 on the 2017/18 charge.

7 REPAIRS AND MAINTENANCE

7.1 The HRA repairs and maintenance (R&M) programme is split between capital and revenue, however both are currently funded from the revenue income derived from rents.

7.2 The repairs and maintenance revenue budget for 2018/19 has been set at £3.765 million, compared to £3.665 million in the 2017/18 revised budget. An analysis of the R & M revenue budget is set out in Appendix B. The £100k increase is mainly due to slippage of work from 2017/18 to 2018/19, and inflation increases on budgets.

7.3 Additional budget has been included in both the R&M revenue budget and capital budget for works at St Peter's Court. This includes work on the window seals, door replacement, Water Tank replacement, and a new Sprinkler System. These works (to the exception of the water tank replacement) are the result of the recent tragic events of Grenfell Tower.

7.4 The amounts included in the repairs and maintenance revenue budget are deemed sufficient to allow the Council to carry out all necessary major works and to maintain the decent homes standard in all its properties.

HRA Capital Programme

7.5 The HRA Capital Programme forms part of the Council's overall Capital Programme, which is presented to Cabinet and Council at the same meeting as the HRA Budget Report. The HRA Capital Programme consists of capital budgets for housing repairs, project development and the Housing Development Programme.

7.6 The HRA Capital Programme will be funded via the rental income it retains, the Major Repairs Reserve (MRR), Right-to-Buy (RTB) receipts, external funding and capital receipts held. Details of the MRR are set out in paragraph 8.2. Funding of the repairs and maintenance aspect of the Capital Programme is through the rental income retained. This is known as Direct Revenue Financing (DRF). The 2018/19 HRA Capital Programme is partly funded by DRF, which totals £5.281 million. This represents £2.772 million for capital housing repair work, £1.997 million towards housing project management and £513k on the housing development programme.

7.7 The Private Sector Housing Team continues to work hard, improving some of the most vulnerable stock in the Waveney District and ensuring that Disabled Facilities Grants are delivered to those who need such works to enable them to stay in their own home. These funds are provided by central Government with the HRA paying the cost of such works for its own Council properties.

8 HRA BALANCE AND RESERVES

8.1 The HRA has five Reserves as well as the HRA revenue working balance (see paragraph 5.10 for details on the revenue working balance). Appendix C shows the movement and balances of these reserves for the budget period 2017/18 to 2021/22.

8.2 Following the introduction of the self-financing on 1 April 2012 and to meet changes in Accounts and Audit Regulations from 2012/13, depreciation charged to the HRA is no longer in the movement on the HRA statement. Instead, the depreciation charged to the HRA is credited to the Major Repairs Reserve (MRR). The MRR can be used to repay the principal elements of the HRA debt, as well as to finance new capital expenditure. There are plans to use the MRR to part fund the Capital Programme in each year from 2017/18 onwards, whilst still increasing its balances to service future year's debt repayments. The balance as at 31 March 2022 is projected to be a healthy £10.684 million.

8.3 The viability of the Self-Financing regime depends ultimately on the Council acting prudently and in doing so, setting sufficient sums aside to begin to meet its future liabilities. The transfer of funds to the Debt Repayment Reserve gives the Council flexibility around its future decisions for repaying the debt. The balance as at 31 March 2022 is forecasted to be £2.14 million after repaying the first instalment of £10.766 million on the 28 March 2022. Future debt repayment instalments will be funded by both the Debt Repayment Reserve and the MRR.

8.4 As at the 31 March 2017 the Council housing stock totalled 4,467. Between 31 March 2017 and the 14 December 2017 there have been 20 RTB sales, but also, the addition of three new build properties. This brings the current housing stock to 4,450.

9 HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?

9.1 The HRA Budget directly supports the Council's aim of Financial Self Sufficiency. With balanced budgets, and the ability to pay of its current debt, it demonstrates its ability to be self sufficient.

9.2 In addition to demonstrating self sufficiency, the budget provides the finances to contribute to a number of the East Suffolk Business Plan action points, including specifically for Waveney, 'Increase the number of new Council Houses'.

10 FINANCIAL AND GOVERNANCE IMPLICATIONS

10.1 The HRA Self-Financing regime transfers the financial risk to the Council. The HRA manages this risk through prudent budgeting, careful financial management and adaption of a rolling 30 year Financial Business Plan. The financial sustainability of the budget is managed by ensuring adequate funds are set aside to repay the debt and appropriate levels of working balances are available for any unforeseen costs. It also gives the HRA the opportunities to meet its business objectives whilst creating efficiencies and savings, giving added value for money.

11 OTHER KEY ISSUES

11.1 This report has been prepared having taken into account the results of an Equality Impact Assessment, a Sustainability Impact Assessment and a Partnership Impact Assessment, none of which have been identified.

12 CONSULTATION

12.1 The proposed 1% rent decrease will be presented at the next Housing Benefit and Tenants Services Consultation Group in March 2018. Unfortunately as this is a mandatory Rent decrease there will be no options to challenge this.

13 OTHER OPTIONS CONSIDERED

13.1 There are no other options regarding the rent setting for 2018/19. All Local Authorities and Housing Associations must follow the 1% rent decrease set out under Section 21 of the Welfare Reform Act and Work Bill. If the Council did not comply, it would risk the possibility of a legal challenge.

13.2 The impact of the loss of income through the mandatory rent decrease between 2016/17 and 2019/20 has resulted in reduced funding available for the new Housing Development Programme. Although challenging, the HRA can demonstrate its ability to fund the current housing developments committed, while still paying back current borrowing by year 30 of the Financial Business Plan. The HRA has the option to borrow a further £11 million to fund additional projects, but the affordability of taking any additional borrowing would need to be assessed. At this time there is no need to make use of this additional borrowing.

The Government has advised that from 2020/21 to 2024/25 Local Authorities will be allowed to increase rents by CPI +1%. Therefore the HRA could budget to increase rents in 2020/21 by approximately 4%, but a more prudent approach has been taken and rental income has been increased by 3% in 2020/21 onwards. If the Government were to reduce this again, it would have a serious impact on the HRA's ability to pay back the current borrowing levels whilst providing the existing level of service and Housing Development Programme as currently planned. Officers are monitoring this risk closely.

14 REASON FOR RECOMMENDATION

14.1 Approval of the Housing Revenue Account Budget, the average weekly housing rent, service and other charges and movements in reserves and balances are required as part of the overall setting of the Council's Budget and Medium Term Financial Strategy.

14.2 To advise Members of the wider housing and welfare changes that will impact on future service delivery.

RECOMMENDATION

1. That the changes affecting public and private sector housing and welfare are noted.

RECOMMENDATIONS TO FULL COUNCIL

2. That the Audit & Governance Committee and Overview & Scrutiny Committee recommend to Council to approve the following;

   (a) The Housing Revenue Account Budget for 2018/19, the revised estimates for 2017/18 and the indicative figures for 2019/20 to 2021/22;

   (b) Movements in Reserves and Balances;

   (c) Weekly housing rent decrease of 1% for 2018/19, giving an average weekly rent of £83.06 over a 50 week collection period; and

   (d) Service Charges and associated fees for 2018/19.

APPENDICES	
Appendix A	HRA Service and Other Charges
Appendix B	HRA Repairs and Maintenance Revenue Budgets
Appendix C	HRA Balance and Reserve Summary
Appendix D	HRA Budget Key Assumptions

BACKGROUND PAPERS – None

APPENDIX A

HRA SERVICE AND OTHER CHARGES

The following charges are based on a 50 week collection year. Under current policies, the following increases in charges are proposed for 2018/19.

	Average Weekly Charge 2017/18 £	Average Proposed Weekly Charge 2018/19 £	Average Weekly Increase £
Grouped Homes Service Charges:			
General Service Charge	12.92	13.40	0.48
Heating Charge	11.25	14.31	3.06
Communal Water Charge	2.85	2.85	0.00
Support Charge	3.33	3.33	0.00
Gas Service Charge	2.30	2.30	0.00

	Weekly Charge 2017/18 £	Proposed Weekly Charge 2018/19 £	Weekly Increase £
Caretaker:			
St Peter's Court	5.00	5.19	0.19
Dukes Head Street	3.65	3.79	0.14
Chapel Court	2.60	2.70	0.10
Servicing:			
Gas Central Heating System	2.30	2.30	0.00
Electric Central Heating System (Wet Systems)	2.30	2.30	0.00
Solid Fuel Central Heating System	2.38	2.38	0.00
Gas Fire	0.40	0.40	0.00
Ecodan Central Heating System Air Source Heat Pump	2.50	2.50	0.00
Septic Tank Emptying/Servicing	5.03	5.03	0.00
Flue Maintenance	2.38	2.38	0.00
Grounds Maintenance	1.38	1.38	0.00
Other:			
Communal Area Cleaning Service	0.50	0.50	0.00
Communal Water Charge	2.85	2.85	0.00

	Weekly Charge 2017/18 £	Proposed Weekly Charge 2018/19 £	Weekly Increase £
Garage Rents:			
Tenants	6.20	6.42	0.22
Non Tenants (net of VAT)	7.58	7.85	0.27

APPENDIX B

	2017/18 Original Budget	2017/18 Revised Budget	2018/19 Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget
Responsive Maintenance	**£**	**£**	**£**	**£**	**£**	**£**
Jobbing Repairs	1,103,400	1,126,900	1,186,700	1,216,300	1,196,900	1,220,300
Tenant Allowances	50,000	50,000	50,000	50,000	50,000	50,000
Disabled Adaptations (See note 1 below)	36,100	98,000	80,000	80,000	80,000	80,000
Environmental Works	5,000	5,000	5,000	5,000	5,000	5,000
Fire Fighting Equipment and Detection	14,500	14,500	14,500	14,500	14,500	14,500
Door Porter and Security Systems	15,000	15,000	16,000	17,000	18,000	18,000
Solid Fuel and Heating repairs	14,000	13,000	14,000	14,000	14,000	14,000
Emergency Lighting	4,000	7,000	7,000	7,000	7,000	7,000
Drainage and Pumping Stations	10,000	5,000	5,000	5,000	5,000	5,000
Insurance / Misc. - expenditure (See note 2 below)	17,000	0	17,000	17,000	17,000	17,000
Rechargeable Works - Incl's Leaseholder Properties	50,000	25,000	25,000	25,000	25,000	25,000
Relet Repairs (Voids) (See note 3 below)	865,000	804,500	873,500	873,500	894,500	894,500
Lifts	5,500	5,500	6,000	6,000	6,000	6,000
Roof and PVC Panelling Cleaning	35,000	38,000	36,000	36,000	37,000	37,000
External Decoration (See note 4 below)	110,000	121,400	114,100	114,100	120,000	120,000
Loft Insulations	5,000	5,000	5,000	5,000	5,000	5,000
Servicing Contracts & Repairs	550,200	550,700	563,000	565,000	567,500	567,500
Asbestos - removal (See note 5 Below)	80,000	120,000	80,000	80,000	80,000	80,000
Asbestos - Testing	85,500	95,000	85,500	85,500	85,500	85,500
Legionella	3,000	3,000	3,000	3,000	3,000	3,000
Electrical Testing & Repairs (See note 6 below)	140,000	50,000	100,000	100,000	100,000	100,000
Communal Areas	54,600	54,600	56,200	56,200	58,000	58,000
Window Seals - St Peters Court	0	36,000	0	0	0	0
Total Responsive Maintenance	**3,252,800**	**3,243,100**	**3,342,500**	**3,375,100**	**3,388,900**	**3,412,300**

Planned Maintenance	**£**	**£**	**£**	**£**	**£**	**£**
Chimneys	30,000	40,000	30,000	30,000	30,000	30,000
External Walls	25,000	25,000	25,000	25,000	25,000	25,000
Canopy / Porches	12,000	12,000	12,000	12,000	12,000	12,000
Paths / Hardstanding (See note 7 below)	210,000	230,000	218,200	226,600	235,000	235,000
Boundary / Retaining Walls	20,000	20,000	22,200	22,200	25,000	25,000
Outbuildings	35,000	35,000	35,000	35,000	35,000	35,000
Structural/Damp/Drainage/etc (See note 8 below)	80,000	60,000	80,000	80,000	80,000	80,000
Total Planned Maintenance	**412,000**	**422,000**	**422,400**	**430,800**	**442,000**	**442,000**

Total HRA Housing Repairs	**3,664,800**	**3,665,100**	**3,764,900**	**3,805,900**	**3,830,900**	**3,854,300**

Notes:

Note 1 - The Housing team now complete Disabled adaption works for the Private Sector Housing team. Income is received for this works, counteracting the increase in costs.

Note 2 - No insurance claims in 2017/18

Note 3 - Reduced spend on voids in 2017/18.

Note 4 - Retention cost relating to the external works at St Peters Court in 2016/17. Carry forward budget used.

Note 5 - Increased costs for Asbestos removal in 2017/18. This is not expected to continue at this level.

Note 6 - Efficiency savings made in this area. Whilst still completing the nessesary works.

Note 7 - Carry forward budget from 2016/17 used to catch up on planned works.

Note 8 - Reduce costs in 2017/18. Keep future year provisions in place.

APPENDIX C

HRA BALANCE AND RESERVE SUMMARY

HRA WORKING BALANCE

	Closing Balance 31/03/17 £'000	*2017/18 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/18 £'000	*2018/19 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/19 £'000	*2019/20 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/20 £'000	*2020/21 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/21 £'000	*2021/22 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/22 £'000
HRA Working Balance	**-7,247**	0	2,614	**-4,633**	0	824	**-3,809**	0	468	**-3,341**	0	776	**-2,565**	-618	0	**-3,183**
10% Requirement	**-2,096**			**-2,047**			**-2,029**			**-2,040**			**-2,122**			**-2,207**

HRA EARMARKED RESERVES

	Closing Balance 31/03/17 £'000	*2017/18 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/18 £'000	*2018/19 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/19 £'000	*2019/20 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/20 £'000	*2020/21 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/21 £'000	*2021/22 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/22 £'000
Debt Repayment Reserve	**-5,310**	-3,596	0	**-8,906**	-1,000	0	**-9,906**	-1,000	0	**-10,906**	-1,000	0	**-11,906**	-1,000	10,766	**-2,140**
Hardship Reserve	**-500**	0	0	**-500**	0	0	**-500**	0	0	**-500**	0	0	**-500**	0	0	**-500**
MMI Reserve	**-66**	0	0	**-66**	0	0	**-66**	0	0	**-66**	0	0	**-66**	0	0	**-66**
Impairment/Revaluation Reserve	**-256**	0	0	**-256**	0	0	**-256**	0	0	**-256**	0	0	**-256**	0	0	**-256**
Total HRA Earmarked Reserves	**-6,132**	-3,596	0	**-9,728**	-1,000	0	**-10,728**	-1,000	0	**-11,728**	-1,000	0	**-12,728**	-1,000	10,766	**-2,962**

HRA CAPITAL RESERVE

	Closing Balance 31/03/17 £'000	*2017/18 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/18 £'000	*2018/19 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/19 £'000	*2019/20 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/20 £'000	*2020/21 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/21 £'000	*2021/22 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/22 £'000
HRA Major Repairs Reserve	**-15,787**	-3,271	2,935	**-16,123**	-3,470	8,997	**-10,596**	-3,602	4,610	**-9,588**	-3,697	3,055	**-10,230**	-3,741	3,288	**-10,684**

APPENDIX D

HRA BUDGET KEY ASSUMPTIONS

The following key assumptions have been made in the budgets.

Income	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Dwelling rents annual increase	-1.0%	-1.0%	3.0%	3.0%
Allowance for voids - % of total rent roll	1.3%	1.3%	1.3%	1.3%
Garage rents annual increase	3.0%	3.0%	3.0%	3.0%
Charges for Services & Facilities annual increase	1.00%	1.00%	1.00%	1.00%
Write-off allowance	£100,000	£100,000	£100,000	£100,000
Number of dwellings lost through Right To Buys (RTB's)	30	30	30	30
Number of new dwellings added to the stock	71	55	50	50
Average interest rate on HRA balances	0.66%	0.66%	0.66%	0.66%
Expenditure				
Bad Debt Provision - % of total income	4.41%	4.41%	4.41%	4.41%
Average interest rate on variable debt	0.50%	0.75%	1.00%	1.25%