

Leadership Team Decision Report

Decision maker and date of Leadership Team meeting, Lead Member meeting	Leadership Team 25 July 2018 Forward Plan reference: KD05272/18/K/A Portfolio: Cllr Kim Taylor-Smith (Deputy Leader, Grenfell and Housing)	 THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
Report title	Housing Revenue Account Budget 2018/19 – Proposed Amendments	
Reporting officer	Doug Goldring, Director of Housing	
Key decision	Yes	
Access to information classification	Public (Part A)	

1 EXECUTIVE SUMMARY

- 1.1 This report sets out a number of proposed budget virements within the Housing Revenue Account (HRA), they are for 2018/19 only. These virements are needed to enable appropriate services and service improvements to be delivered in the current year.
- 1.2 The report also sets out a revised forecast of the HRA's Working Balance over the medium term, assumptions regarding future spending requirements have had to be made. This highlights the HRA could go into deficit, which would be illegal.
- 1.3 The report then sets out potential ways in which a deficit could be avoided. The next stage is to consider some of the options in greater detail with recommendations being brought back to the Leadership Team in the autumn.

2 RECOMMENDATIONS

- 2.1 It is recommended that the following budget changes within the Housing Revenue Account (HRA) are agreed for 2018/19 only:
- (i) An increase of £3.2million in the budget for management functions;
 - (ii) An increase of £2 million in the budget for responsive repairs;
 - (iii) The creation of budget provision of £2.2 million to fund a number of initiatives related to the Lancaster West Neighbourhood. This comprises: health and safety, additional cleaning, redecoration works and compensation payments;
 - (iv) The budget for income from leaseholders towards major works is reduced by £1 million and
 - (v) The budget for income from leaseholders for insurance cover is reduced by £330,000.
- 2.2 It is recommended that the HRA Capital Programme for 2018/19 is reduced by £4 million to reflect anticipated slippage.
- 2.3 It also recommended that ways of closing the 'funding gap' (as set out in section 8) are considered, and proposals are brought to a future meeting of the Leadership Team.

3 REASONS FOR DECISION

- 3.1 Following the transfer of functions from the TMO, the need to incur additional expenditure in a number of areas has been identified.
- 3.2 A number of other budget variances within the HRA also need to be addressed.
- 3.3 This report therefore seeks agreement to amend the Housing Revenue Account Budget, changes proposed are for 2018/19 only.

4 BACKGROUND

- 4.1 In February 2018, the HRA Budget for 2018/19 was agreed. In March, the Leadership Team approved the HRA Business Plan which set out the financial outlook for the HRA and set out the priorities and investment requirements for the Council's housing stock. This budget was based upon the Council's understanding of the financial arrangements prior to functions being transferred from the TMO on 1st March 2018.

5 PROPOSAL AND ISSUES

- 5.1 This section sets out the various budget changes that are required within the HRA in 2018/19.

Management Budget

- 5.2 Most of the costs incurred against this budget were previously met from the management fee paid to the TMO. In effect, it mainly comprises the cost of staff engaged in the management of the housing stock. This includes the stock within the Lancaster West Neighbourhood (which includes Bramley House).
- 5.3 The TMO will remain a separate legal entity until at least the end of the Public Inquiry. The Council has to fund the cost of the TMO through a management fee to the organisation which is being funded from this budget within the HRA. This will include the cost of the TMO's representation at the inquiry.
- 5.4 A high use of interim staff is currently required. This reflects the number of vacancies needing to be filled and also the need to cover posts where the post holder is sick. Recruitment plans are currently in place, however, realistically it will be some time before the number of interims reduces considerably.
- 5.5 A number of additional short-term posts need to be created to enable the required service improvements to be identified and implemented.
- 5.6 The budget also needs to ensure an appropriate management service is provided to the Lancaster West Neighbourhood.
- 5.7 The overall cost of the proposed arrangements is estimated to be £15.9m in 2018/19. This is £3.2m more than was assumed in the original budget, of this £100,000 relates to the Lancaster West Neighbourhood.
- 5.8 At this early stage in the financial year, it is very difficult to predict the level of budget that will be required for the management functions in subsequent years. However, given the need to continue funding the TMO, it is clear that the current provision will need to increase. A working assumption within our modelling is an extra £3m in both 2019/20 and 2020/21.

Responsive Repairs

- 5.9 The budget for responsive repairs for the whole housing stock i.e. including the Lancaster West Neighbourhood needs to increase by £2m.
- 5.10 This reflects the need to address the backlog of works, the need to establish an appropriate structure and the additional cost of interims whilst recruitment plans are put in place.
- 5.11 The budget is being front loaded to address the backlog. It is anticipated that a lower provision will be required next year. However, until capital works are undertaken, the current base budget is likely to be insufficient. A working

assumption is that the base budget will need to increase by around £1.4 million in 2019/20.

- 5.12 Repairs Direct has undertaken some redecoration work, as part of the process of enabling residents to return to their properties in the Lancaster West Neighbourhood. The original budget for 2018/19 did not include budget provision for this work. Based on works already undertaken this financial year and the level of works still to be done, provision of £500,000 needs to be created in 2018/19.

Health and Safety

- 5.13 Following the fire at Grenfell Tower, fire marshals have been deployed at the Walkways. In 2017/18, the cost of these was met through a permission from the Ministry of Housing, Communities and Local Government (MHCLG) to utilise funding from the General Fund to offset these costs. However, from April 2018 the cost of these will need to be met by the Council's HRA.
- 5.14 The original HRA budget for 2018/19 includes no provision for fire marshals as future arrangements had not been determined.
- 5.15 Officers are continuing to work on fire safety measures in the Lancaster West Neighbourhood. It is currently assumed that the fire marshals will continue to be present at the Walkways until the end of the calendar year. This would require budget provision of £900,000 to be created.
- 5.16 It is likely that additional costs will arise from Dame Judith Hackett's report. However, these have not yet been determined but our financial modelling assumes that additional annual provision of £200,000 will be needed. In the current year a lower provision of £100,000 has been assumed.

Cleaning Services

- 5.17 Additional cleaning services continue to be provided by the contractor. Additional budget provision of £350,000 is required.

Compensation

- 5.18 The budget was prepared on the assumption that the previous waivers of HRA charges would not continue beyond 28 January 2018. These costs were met from the General Fund in line with special permission received from MHCLG.
- 5.19 However, this was replaced by a compensation scheme. The cost of this was significantly less and was initially assumed to continue until end of March. This has been extended and some compensation will continue to be paid until 31st August. Budget provision of £370,000 will need to be created within the HRA to cover these costs.

Major Works – Income from Leaseholders

- 5.20 In 2018/19, income from charges to leaseholders for major works is projected to be around £1 million less than budgeted. This reflects a number of projects not proceeding.

Insurance – Charges to Leaseholders

- 5.21 At its meeting in June 2018, the Leadership Team agreed to waive the increase in insurance charges to leaseholders that was attributed to Grenfell Tower. This resulted in costs of £330,000 being met by the HRA.

Future Years – Other Financial Commitments

- 5.22 Provision of £30 million has been made for refurbishment work in the Lancaster West Neighbourhood. Of this, £15 million will be met through borrowing. At this stage, it is assumed that borrowing will be needed from 2021/22.

6 OTHER BUDGET RISKS

- 6.1 There are a number of other potential budget risks to the HRA. These are set out in this section, although in some cases they cannot be quantified at this stage.

Responsibility for Grenfell Tower

- 6.2 In 2018/19, the costs associated with making the tower safe and wrapping the tower were met by a grant from MHCLG. It is currently unclear whether costs will continue to be funded in this way or whether the Council will need to meet these costs.
- 6.3 If the Council is required to meet these costs, then these will fall to the HRA unless the tower is appropriated to the General Fund.

Water Charges – Ruling re London Borough of Southwark

- 6.4 A High Court ruling found that the London Borough of Southwark had overcharged its tenants for their water charges. Southwark had paid Thames Water a lump sum which had been reduced by a provision to reflect voids and a commission for undertaking the billing and collection functions including taking on the risk of non-payment by the tenant. These reductions were not reflected in tenants' water bills i.e. tenants were charged the full rate. The ruling found that Southwark should have passed these deductions onto tenants. The ruling is likely to affect many local authorities and housing associations, including the Royal Borough.
- 6.5 A number of authorities are seeking advice as part of a collective under the umbrella of the Local Government Association. However, it is anticipated that it will take time for this issue to be resolved. Any costs arising would need to

be met from the Housing Revenue Account, although at this stage the financial implications arising from this issue are very uncertain.

- 6.6 No provision has been included in the Council's accounts, although a contingent liability of £3.1 million has been included. Our financial modelling has prudently assumed that costs of £3.1 million would arise in 2019/20.

Sprinklers

- 6.7 A feasibility report regarding the installation of sprinklers in high rise and high risk blocks is due back in September. This report will help the Council to determine its policy regarding sprinklers.
- 6.8 If they are to be fitted, then the costs of doing the work would be significant. It is not anticipated that any Government funding would be available and costs would need to be met from the Council's HRA.

Sale of High Value Voids

- 6.9 It is still unclear whether Councils will be required to make any financial contribution, should the right to buy regime be rolled out to tenants in housing associations. Within the housing sector, this is now seen as a low risk but any formal decision will probably not be taken until the planned pilots have taken place.

Accommodation Strategy

- 6.10 The future accommodation requirements needed to manage the housing stock will need to be determined. These will depend on the future arrangements for managing the stock.
- 6.11 However, the current lease for the Hub does end in early 2020 and this does provide the opportunity to review the future arrangements. Any plans to change the future configuration would need to address any dilapidation works needed.

7 THE HOUSING REVENUE ACCOUNT WORKING BALANCE

- 7.1 As at 1st April 2018, the HRA's Working Balance stood at £19.9 million.
- 7.2 Slippage of £4 million is currently being assumed on this year's Capital Programme (see section 8).
- 7.3 Assuming that the budget proposals in this report are approved and that slippage of £4 million arises on the 2018/19 Capital Programme, then based on a number of assumptions regarding future spending plans, the HRA's Working Balance over the next 5 years would be as follows:

	Balance
1st April 2018	19.873m
31st March 2019	2.249m
31st March 2020	5.652m (deficit)
31st March 2021	7.191m (deficit)
31st March 2022	6.872m (deficit)
31st March 2023	5.618m (deficit)

- 7.4 The Council cannot budget for a deficit on the Housing Revenue Account, and therefore cannot approve budget arrangements for more than the current year. It will therefore need to consider ways of balancing the future budget.

8 WAYS OF CLOSING THE 'FUNDING GAP'

- 8.1 This section sets out potential ways in which a deficit could be avoided. The options would all have implications which would need to be considered carefully before any proposals were made.

Use of Uncommitted Borrowing Headroom

- 8.2 The Council has some residual borrowing head room for capital expenditure that it was planning to utilise in later years. In order to free up some of the working balance for revenue repairs, the capital programme over the next 3 years could be funded from early use of capital receipts and borrowing rather than balances. This would push back the deficit until 2022/23, assuming that no further spending requirements are identified.
- 8.3 However, a deficit of over £5m would still arise at the end of this 5 year period. Normally we would not budget for the Working Balance to go below £5m. The estimated shortfall at the end of the 5 year period is therefore in the region of £10m.

Capital Programme – Reducing or Re-profiling

- 8.4 The HRA Business Plan set out the potential resources available to fund the Capital Programme (£129 million). The working assumption at that time was to allocate £115 million over 5 years to fund capitalised repairs and improvements. The balance being retained on the assumption that other

capital expenditure requirements would be identified over the 5 year period.

- 8.5 It is currently envisaged that slippage of approximately £4 million will arise on the HRA Capital Programme in 2018/19. This reflects the need to implement a revised procurement strategy thereby ensuring procurement results in value for money being attained.
- 8.6 It would be possible to reduce the allocation (£115 million) or redirect some of the balance to fund the revenue shortfall. This is possible as a significant part of the capital resources are allocations from the working balance rather than capital receipts or borrowing. However, any decision to reduce or slip plans beyond the 5 year period would need to take into account the current backlog. It is not currently proposed to change this overall provision but to re-profile within the 5 year period.

Generation of Additional Income

- 8.7 Work will be undertaken to ascertain whether additional income could be generated from the HRA commercial portfolio.
- 8.8 The possibility of raising additional income from charges could also be explored, together with the generation of capital receipts through one-off disposals.

Seek more efficient and effective ways of managing the day to day services.

- 8.9 The Council is currently operating largely within the systems and structures operated by the TMO in particular the repairs service operated through Repairs Direct. During the current year these arrangements will be thoroughly examined to ensure that they are as cost effective as possible.

Increasing Permanent Supply

- 8.10 Work to identify potential development opportunities is currently underway. This may provide some improvement to the HRA financial outlook, although realistically it will take 2 to 3 years before any additional units are available.

9. CONSULTATION AND COMMUNITY ENGAGEMENT

- 9.1 There are no specific consultation and engagement implications arising from this report.

10. LEGAL IMPLICATIONS

- 10.1 The report correctly and repeatedly reminds the Senior Leadership Team that they cannot budget for a deficit of the Housing Revenue Account and in paragraph 2 the specific recommendations are clearly outlined in relation to the 2018/19 financial year. Any other related legal implications are contained within the body of the report.

11. FINANCIAL, PROPERTY AND ANY OTHER RESOURCES IMPLICATIONS

- 11.1 The Council has to balance the Housing Revenue Account and cannot budget for a deficit. It is therefore necessary that the Council review future expenditure and sources of income to ensure that the HRA remains in surplus. As stated in the report permission was received from MHCLG to allow general fund reserves to fund some of the items of an exceptional nature in 2017/18 relating to Grenfell. There are insufficient general fund reserves to enable a similar transaction in the current year even if MHCLG permission was forthcoming.

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Local Government Act 1972 (as amended) - Background papers used in the preparation of this report:

Housing Revenue Account Budget Report 2018/19
Housing Revenue Account Business Plan February 2018

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