

Executive Decision Report

Decision maker and date of Leadership Team meeting or (in the case of individual Lead Member decisions) the earliest date the decision will be taken	Leadership Team 9 January 2019 Forward Plan reference: 05380/19/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 2019/20	
Reporting officer	Executive Director (Resources and Assets)	
Key decision	Yes	
Access to information classification	PUBLIC	

1. EXECUTIVE SUMMARY

- 1.1 The events of 14th June 2017 have had a significant impact on the Council's financial position – both the General Fund and the Housing Revenue Account (HRA).
- 1.2 The 2018/19 budget for the HRA was set in March 2018. However, following the transfer of functions from the TMO, the need to incur additional expenditure in a number of areas was identified. A report was presented to the Leadership Team in July 2018 which sought agreement to a number of virements. It also provided a revised forecast for the HRA working balance showing that an unlawful deficit could arise within the next 5 years.
- 1.3 The HRA budget for 2019/20 has been prepared within this financial context. The financial outlook for the HRA will be considered in more detail when the Business Plan is presented to the Leadership Team in February 2019.
- 1.4 The budget report also sets out proposals for charges to tenants and leaseholders in 2019/20.

2. RECOMMENDATIONS

- 2.1 The Leadership Team is asked:
 - (i) to consider the draft HRA budget and proposals for rents and charges in 2019/20;
 - (ii) to agree that the budget is referred to the Tenants Consultative Committee and Housing and Property Scrutiny Committee for comment. Feedback from this consultation exercise will help to determine the final budget; and
 - (iii) to note that a number of uncertainties remain and that some amendments may be made in the update which will be presented to the Leadership Team in February 2019.

3. REASONS FOR DECISION

- 3.1 The Council is required to set a balanced budget for the Housing Revenue Account and therefore cannot budget for a deficit on the Housing Revenue Account.

4. BACKGROUND

- 4.1 Following the transfer of functions back from the TMO, the need for in year budget increases was identified. To enable appropriate services and service improvements to be delivered, higher revenue budgets will need to continue.

- 4.2 Identifying all spending requirements is challenging, given concerns raised following the fire and the need for changes and improvements following the TMO's decision to hand back responsibility for day to day services. It is therefore possible that some amendments may need to be made to this budget before it is finalised.
- 4.3 However, all HRA revenue budgets need to be met from within HRA resources, there can be no transfer of resources from the General Fund.
- 4.4 This report therefore sets out a draft HRA budget which meets the needs of the service, but is funded within HRA resources.
- 4.5 The overall financial outlook for the HRA over the next 30 years will be considered within the HRA Business Plan, this will be presented to the Leadership Team in February.

5. PROPOSAL AND ISSUES

- 5.1 This section sets out a number of issues which impact on the budget being presented.

Repairs Direct

- 5.2 At its meeting in November, the Leadership Team agreed to the Repairs Direct Board's in principle decision to cease delivering the Council's responsive repairs service from 1st April 2019.
- 5.3 The budget for 2019/20 has been compiled on the basis that the service will be directly managed by the council within the Housing Management department.
- 5.4 Employees transferring will be eligible to opt into the Council's pension fund. As a result, the cost of the employers' pension contribution could increase significantly. However, the additional cost will depend upon the number of employed staff in the future service. A provision of £200,000 has been included in the budget for such costs.
- 5.5 If the staff are later harmonised onto the Council's terms and conditions, then additional costs will arise e.g. the reduction in the working week. A budget increase would then need to be made to reflect such changes.
- 5.6 Some one-off costs will arise as part of the transition process. However, these are not expected to exceed £30,000. However, some savings are anticipated from a rationalisation of systems which could be in the region of £40,000, these have not been reflected in the budget for 2019/20.

Universal Credit

- 5.7 In Kensington and Chelsea, Universal Credit is being rolled out from December 2018.

5.8 To support this process, 2 temporary posts are being created.

Water Charges – Ruling re London Borough of Southwark

5.9 Following the High Court ruling which found that the London Borough of Southwark had overcharged its tenants for their water charges, a number of authorities, including the Royal Borough, have been seeking advice as part of a collective under the umbrella of the Local Government Association.

5.10 However, it is anticipated that this issue will take some time to resolve and the budget for 2019/20 does not include any provision for any refunds. Should a decision be taken to make refunds in 2019/20, then a draw down from the HRA working balance will be required.

Rent Policy

5.11 In 2015, the Government announced that social rents would reduce by 1% in each of the 4 years 2016/17 to 2019/20.

5.12 Rents for tenants in our housing stock must therefore reduce by 1% from April 2019.

5.13 When properties become vacant, local authorities are permitted to set rents for new households in the properties at Target Rent (less 1% each year). The Council's policy is where the target rent exceeds £250 per week, then the decision regarding the rent level is delegated to the Director of Housing.

5.14 Recently a consultation regarding rent policy from April 2020 was published. The results of this consultation are awaited but it is not anticipated that any of the proposals would need to be implemented before April 2020.

5.15 Following the fire at Grenfell Tower, a number of waivers for rents and service charges were introduced. This policy later changed to a compensation policy but in effect resulted in a lower level of income being received. The budget for 2019/20 assumes that no such compensation payments will be required.

5.16 A number of former Grenfell Tower/Walk residents will continue to have protected rent and service charges.

5.17 The average rent in 2019/20 will be £120 per week.

Other Charges

5.18 Charges for communal heating and hot water services have been set in accordance with the agreed methodology. These were presented to Scrutiny Committee in December 2018.

5.19 It is proposed that in 2019/20 charges for garages and other parking facilities are increased by 2%, this is the standard rate of increase being used across the Council where it has discretion to increase charges. Where parking facilities fall

within a Traffic Management Order, the charges for these must be approved by the Lead Member for Streets, Planning and Transport. The proposed charges from April 2019 are set out in Appendix 4.

- 5.20 Similarly, charges for the Community Alarm Service will increase by 2%. The monthly charge from April 2019 will be £28.60 for the visiting service and £17.40 for the monitoring service.

Funding of HRA Capital Expenditure

- 5.21 The main sources of funding for HRA capital expenditure are capital receipts, contributions from the HRA and borrowing. The provision for depreciation in effect forms one of the contributions from the HRA.

- 5.22 It is currently envisaged that capital expenditure incurred in both 2018/19 and 2019/20 can be funded through a combination of capital receipts and the contributions arising from the depreciation provision. Therefore, no further revenue contribution to capital has been budgeted in 2019/20. This assumption will be reviewed as part of the HRA Business Planning process.

6. HRA BUDGET SUMMARY

- 6.1 The following table summarises the changes to the Working Balance in both 2018/19 and 2019/20 (a more detailed breakdown is provided in Appendix 1):

Heading	2018/19 Budget £'000	2018/19 Forecast Outturn £'000	2019/20 Draft Budget £'000
Total Budgeted Gross Expenditure	59,580	61,751	56,131
Total Income Budgets	58,033	57,690	58,439
Net Budgeted Surplus/Deficit	1,547	4,061	-2,308
Contribution towards the Major Repairs Reserve to fund Capital Expenditure	16,388	0	0
Contribution from leaseholders towards Major Works	900	-271	0
Overall Change in Working Balance	17,035	4,332	-2,308

- 6.2 The budget for 2018/19 includes the budget amendments agreed by the Leadership Team in July 2018.

- 6.3 Further details are set out in the following appendices:

- Expenditure Budgets (Appendix 2) and
- Income Budgets (Appendix 3).

6.4 The following table sets out the forecast level of Working Balance at 31st March 2020:

	£000's
Balance at 1 st April 2018	19,873
Projected draw down in 2018/19	4,332
Balance at 31st March 2019	15,541
Projected Contribution in 2019/20	2,308
Balance at 31st March 2020	17,849

6.5 This significant change in the working balance reflects the decision to fund a significant part of the HRA Capital Programme in 2018/29 and 2019/20 through earmarked capital receipts, rather than a draw down from the working balance.

6.6 Financial modelling over the medium/long term is currently being undertaken. This will be reflected in the HRA Business Plan which will be presented to the Leadership Team in February.

7. CONSULTATION AND COMMUNITY ENGAGEMENT

7.1. The budget will be considered by the Tenants Consultative Committee and Housing and Property Scrutiny Committee prior to being finalised.

8. LEGAL IMPLICATIONS

8.1 The report correctly reminds the Senior Leadership Team that they cannot budget for a deficit of the Housing Revenue Account. Any other related legal implications are contained within the body of the report.

9. FINANCIAL, PROPERTY AND ANY OTHER RESOURCES IMPLICATIONS

9.1. The financial implications are set out in the report.

Mike Curtis
Executive Director – Resources and Assets

Local Government Act 1972 (as amended) – Background papers used in the preparation of this report None

Contact officer(s): Steve Mellor, Group Finance Manager (Housing)

E-mail Steve.Mellor@rbkc.gov.uk Tel: 020 7361 2370

Formal clearance requirements for all key decision reports

Cleared by Finance (officer's initials)	SM
Cleared by <u>Corporate</u> Finance (officer's initials)	TE
Cleared by Director of Legal Services (officer's initials)	JG
Cleared by Communications & Community Engagement (officer's initials)	NT

Appendix 1

HOUSING REVENUE ACCOUNT (HRA)				
	Budget	Forecast Outturn	Estimate	% Variation Budget & Estimate
	2018-19	2018-19	2019-20	2019-20
	£'000	£'000	£'000	£'000
Expenditure				
Management Cost - Housing Management	16,033	16,141	15,984	0%
Contribution to KCTMO	848	283	500	-41%
Repairs and Maintenance	15,164	15,664	12,659	-17%
Neighbourhood Management	297	297	283	-5%
Locally Agreed Budgets (ARW)	500	500	500	0%
Resident Engagement	100	175	0	-100%
Concierge	245	210	256	4%
Community Alarm System (CAS)	481	481	510	6%
Fire Related Expenditure	1,258	2,833	1,600	27%
Stock Condition Survey	170	340	0	-100%
Feasibility Studies	500	500	500	0%
Electricity, Heating, and Hot Water	2,913	2,913	2,800	-4%
Contract Cleaning	3,475	3,625	3,297	-5%
Refuse Collection	163	163	167	2%
Pest Control	262	290	268	2%
Rents, Rates, Taxes & Other Charges	197	391	197	0%
Digital TV	465	465	465	0%
Car Park Management	60	60	60	0%
Legal Costs	537	537	570	6%
Insurance Costs	2,252	2,252	2,306	2%
Recharges from Corporate Services	837	771	771	-8%
Provision for Bad Debts	500	500	500	0%
Capital Charges	9,063	9,169	8,754	-3%
Depreciation - Dwellings and Non Dwellings	3,152	3,084	3,084	-2%
Contingency	108	108	100	-7%
Total Expenditure	59,580	61,751	56,131	-6%
Income				
Dwelling Rents - Rent and Hostels	-41,298	-40,965	-41,208	0%
Commercial Properties Rent Income	-4,066	-4,066	-4,164	2%
Income from parking facilities	-736	-736	-750	2%
Tenants Service Charges	-4,720	-4,720	-4,833	2%
Leaseholder Service Charges	-2,746	-2,746	-2,812	2%
Heating and Hot Water Charges	-1,642	-1,642	-1,700	4%
Insurance Charges - Leaseholders	-1,178	-1,178	-1,206	2%
Other Charges for Services & Facilities	-4	-4	-4	0%
Transfer from Car Park Reserve	-60	-60	-60	0%
Community Alarm System (CAS)	-545	-545	-562	3%
Capital income	-910	-910	-1,021	12%
Contribution from Supporting People budget	-102	-92	-92	-10%
Interest income	-26	-26	-26	0%
Total Income	-58,033	-57,690	-58,439	1%
In year Revenue Surplus (-)/Deficit	1,547	4,061	-2,308	-249%
Transfer to fund Capital Programme	16,388	0	0	
Contribution from Leaseholders towards Major Works	-900	271	0	
Net Draw Down from Working Balance	17,035	4,332	-2,308	-114%
HRA Balance b/fwd	-19,873	-19,873	-15,541	
Contribution to (-) or from (+) HRA working balance	17,035	4,332	-2,308	
TOTAL HRA Working Balance	-2,838	-15,541	-17,849	529%

APPENDIX 2

EXPENDITURE BUDGETS

This Appendix comments on the expenditure budgets within the HRA and explains the main reasons for changes.

Management Costs – Housing Management

- 1.1 A budget of £16million is being set for 2019/20. This mainly comprises the costs of employing staff and the associated accommodation and office expenses.
- 1.2 The budget includes provision for a separate management presence at the Lancaster West Estate.
- 1.3 The longer term future management arrangements for the Council's housing stock are currently uncertain and will be determined following a consultation process.

Contribution to the Kensington and Chelsea Tenant Management Organisation

- 2.1 The Tenant Management Organisation (TMO) is required to remain in existence throughout the Public Inquiry and the investigation into corporate manslaughter. However, it does not have any responsibility for the provision of management and maintenance services.
- 2.2 The TMO has estimated that it will need to set a budget of around £750,000 for 2019/20. A draw down from its reserves of around £250,000 is being assumed, the balance of £500,000 will need to be met through a contribution from the HRA.

Repairs and Maintenance

- 3.1 For 2019/20, an overall provision of £12.7m has been set. This includes both planned and responsive repairs, the latter being provided by Repairs Direct in the current year.
- 3.2 The costs of the responsive repairs service have been based on the current establishment, allowing for the potential increase in pension costs, assuming some staff may opt to be in the Council's pension scheme. Provision for additional costs arising from the harmonisation of terms and conditions has not been included. The budget reflects a lower level of works being undertaken by sub-contractors.

Fire Related Expenditure

4.1 The budget for 2019/20 comprises the following elements:

	2019/20 £'000
Fire Assessments	150
Fire Marshals	1,250
Provision for costs arising from Hackitt Recommendations	200
TOTAL	1,600

Electricity, Heating and Hot Water

5.1 Budget provision is based on assumed energy levels and energy procured through a customer access agreement let by the Crown Commercial Service.

Contract Cleaning

6.1 The provision for 2018/19 was increased in year to fund additional services following the fire at Grenfell Tower. This level of provision is not assumed to continue in 2019/20.

Insurance

7.1 A tender process for insurance services is currently being undertaken. The budget provision may therefore need to be amended following this process.

Capital Financing Charges

8.1 The overall level of debt to be financed is assumed to be £210 million i.e. no further loans are assumed to be taken out in 2019/20. Of this, £118 million is funded through historic loans from the Public Works Loan Board. The balance will be funded through use of the Council's cash reserves within the General Fund.

8.2 The average interest rate chargeable to the HRA on actual external debt is estimated to be 6.03% and on internally funded debt a rate of 1.675% is currently forecast.

8.3 The Council's ability to continue lending funds to the Housing Revenue Account will be addressed as part of the HRA Business Planning process.

Feasibility Studies

- 9.1 Provision of £500,000 is being made to undertake feasibility studies relating to potential capital schemes. Should these schemes go ahead then costs will be capitalised.

INCOME BUDGETS

This Appendix comments on the income budgets within the HRA and explains the main reasons for changes.

Dwelling Rents

- 1.1 In 2019/20 dwelling rents are being reduced by 1%. In the Chancellor's budget (2015), local authorities were required to reduce dwelling rents by 1% each year for 4 years. This is the 4th year of this arrangement. A consultation regarding rent policy from April 2020 has recently been published which confirms rents can be increased in subsequent years by CPI + 1%.

Service Charges (Tenants and Leaseholders)

- 2.1 The actual service charges for 2019/20 will be determined over the next couple of months. At this stage, the budget assumes income levels will rise in line with inflation.

Charges to Leaseholders for Insurance

- 3.1 The charges will be determined following the retender process (see above).

Income from Leaseholders towards Major Works

- 4.1 It is currently very difficult to predict the level of income from charging leaseholders for major works as negotiations are ongoing with the contract manager engaged under the TMO's framework.
- 4.2 Invoices are raised at the end of the project and are based on actual costs incurred. Final accounts cannot be produced until the above negotiations are complete.
- 4.3 In the current year no income is currently forecast, indeed refunds of £271,000 relating to prior years' charges are anticipated. At this stage no budget for income has been set for 2019/20, this will be revised as the position becomes clearer.

Appendix 4

CHARGES FOR PARKING PERMITS

Charges for Tenants and Leaseholders (TLSC) from 1 April 2019

Facility	Current Standard Charge per week – Tenants and Leaseholders	Proposed Standard Charge per week – Tenants and Leaseholders
	(TLSC)	(TLSC) from 1 April 2019
Self-Contained Garage – North (excluding Lancaster	13.39	13.66
Self-Contained Garage – South	26.30	26.83
Self-Contained Garage - Lancaster West	22.84	23.30
Self-Contained Garage – Norwood Green, Southall	7.02	7.16
External Hardstand – North (inc. Lancaster West)	5.35	5.46
External Hardstand – South	6.89	7.03
Indoor Car Park Bay – Elm Park Gardens	26.68	27.21
Indoor Car Park Bay – Walnut Tree House	14.38	14.67
Indoor Car Park Bay – Warwick Road	12.22	12.46
Indoor Car Park Bay – Worlds End	17.56	17.91
Indoor Car Park Bay – Swinbrook Estate (new charge to be introduced when bays created)	9.35	9.54
Charges to tenants and leaseholders with a disabled persons purple badge	Nil	Nil

Charges for Other Users (OUSC) from 1 April 2019

Facility	Current Standard Charge per week – Other Users (OUSC)	Proposed Standard Charge per week – Other Users (OUSC) from 1 April 2019
	Self-Contained Garage – North (excluding Lancaster West)	33.46
Self-Contained Garage – South	65.77	67.09
Self-Contained Garage -Lancaster West	57.07	58.21
Self-Contained Garage – Norwood Green, Southall	17.54	17.89
External Hardstand – North (inc. Lancaster West)	13.37	13.64
External Hardstand – South	17.21	17.55
Indoor Car Park Bay – Elm Park Gardens	66.69	68.02
Indoor Car Park Bay – Walnut Tree House	35.93	36.65
Indoor Car Park Bay – Warwick Road	30.51	31.12
Indoor Car Park Bay – Worlds End	43.90	44.78
Indoor Car Park Bay – Swinbrook Estate (new charge to be introduced when bays created)	23.36	23.83
Charges to tenants and leaseholders with a disabled persons purple badge	Nil	Nil

