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THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

HOUSING AND PROPERTY SCRUTINY COMMITTEE – 11 JANUARY 2017

REPORT BY THE DIRECTOR OF HOUSING

HOUSING REVENUE ACCOUNT - BUDGET REPORT 2017/18

This report sets out the proposed budget for the Housing Revenue Account (HRA) in 2017/18.

It also recommends the level of increase to be applied to charges made to tenants and leaseholders who live in Council properties managed by the TMO.

FOR COMMENT

1. BACKGROUND AND FINANCIAL CONTEXT

1.1 In April 2012, the Self Financing regime for social housing within the Housing Revenue Account (HRA) was introduced. This both improved the financial outlook for HRAs and provided more certainty regarding future sources of income.

1.2 However, a number of policy announcements and the anticipated Housing White Paper are resulting in greater uncertainty regarding the financial outlook for the HRA.

1.3 The key changes which will have financial implications for the HRA are:

a) Reductions in social rents (see section 3);

b) The Sale of High Value voids linked to the extension of the Right to Buy Regime for tenants of Registered Providers (the timescale and severity of this remain uncertain, however, the Government has recently announced that no levy payment will be required in 2017/18) and

c) Changes to Benefits

1.4 Councils had been expecting to implement the Pay to Stay proposals from April 2017. However, it has now been confirmed that local authorities will no longer have to implement this policy, although they will have local discretion to implement the policy. The Royal Borough will need to consider its position during 2017/18.

1.5 The full impact of some of these policy changes cannot be ascertained as details on how they will operate in practice have yet to be published. The HRA Business Plan provides some further details and commentary. However, we have highlighted in this report where we believe there will be an impact in 2017/18.

1.6 The results of the initial financial modelling over the medium term are set out in section 5. These will need to be refreshed once the implications of the above policy changes become clearer.

2. BUDGETS – 2016/17 AND 2017/18

2.1 Management arrangements for budgets within the HRA are set out in the management agreement with the TMO. This provides for a number of budgets within the HRA to be managed by the TMO. Budgets within the HRA fall into the following three categories:

- The management costs of the TMO - these are met from an agreed management fee which is charged to the HRA;
- Budgets managed by the TMO on behalf of the Council. These include the major budgets covering repairs, maintenance and energy and income from rents, service charges and commercial lettings and
- Council managed HRA budgets including capital financing charges and the provision for depreciation.

2.2 An overall statement of HRA budgets for the current year and 2017/18 is set out in Appendix 1. Total gross expenditure in 2017/18 is budgeted at £47.087 million with income budgeted to be £58.226 million. This results in a budgeted surplus of £11.138 million which is added to the Working Balance. In 2017/18, it is planned to transfer £15.091 million from the Working Balance to the Major Repairs Reserve as a contribution towards the Capital Programme. This will be partly funded from contributions from leaseholders, however the amounts due in 2017/18 will depend upon the timing of the S20 notices. The net effect in 2017/18 is to reduce the Working Balance by £2.082 million.

2.3 The following table summarises the changes to the Working balance in both 2016/17 and 2017/18:

Heading	2016/17 Original Budget £'000	2016/17 Revised Budget £'000	2017/18 Proposed Budget £'000
TMO management fee	10,825	10,825	10,761
Gross expenditure budgets managed by TMO	21,727	19,686	21,490
Gross expenditure budgets managed by the Council	15,855	15,378	14,836
Total Budgeted Gross Expenditure	**48,407**	**45,889**	**47,087**
Income budgets managed by the TMO	-57,533	-57,542	-57,995
Income budgets managed by the Council	-254	-254	-231
Total Income Budgets	**-57,787**	**-57,796**	**-58,226**
Net Budgeted Surplus	**-9,380**	**-11,907**	**-11,138**
Contribution towards the Major Repairs Reserve to fund Capital Expenditure	15,391	14,083	15,091
Contribution from leaseholders towards Major Works	-2,651	-1,476	-1,871
Overall Change in Working Balance	**3,360**	**700**	**2,082**

2.4 Further details on the current year's budget and the proposed budget for 2017/18 are set out in the following appendices:

- The TMO Management Fee (Appendix 2);
- Managed TMO Budgets (Appendix 3) and
- Council Managed Budgets (Appendix 4).

2.5 Details of the Working Balance and Reserves are set out in Appendix

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2.6 In recent years funding for Discretionary Housing Payments has increased, recognising the changes being made to welfare benefits. Details of next year's allocation are not yet available, however, there remains a risk that the Discretionary Housing Fund is insufficient to meet local demand arising from these changes.

3. POLICY FOR SETTING RENT LEVELS FOR HRA DWELLINGS

3.1 The Chancellor's budget statement in July 2015 announced that social rents will reduce by 1% in each of the next 4 years (2016/17 to 2019/20). This change surprised the housing sector as in October 2013, a 10 year rent agreement was published setting rent increases at CPI + 1%.

3.2 This change was introduced through the Welfare Reform and Work Act. It requires both Registered Providers and local authorities to reduce rents for social housing by 1% per annum over 4 years, commencing in 2016/17 from a frozen 2015/16 baseline. The frozen baseline is based on rents charged at 8 July 2015. Rents will therefore reduce by a further 1% in 2017/18, this being the second year of the 4 year reduction period.

3.3 This 1% reduction will also apply to sheltered accommodation over the 3 year period (2017/18 to 2019/20). A one year exemption for 2016/17 was granted by Government.

3.4 When properties become vacant, local authorities are permitted to set rents for new households in the properties at Target Rent (less 1% each year).

3.5 The rules regarding rent levels are now effectively prescribed. This was a change in approach, in that previously we have been able to set rents in a manner determined locally, provided we didn't exceed the Limit Rent.

3.6 Based on this methodology, the average rent level in 2017/18 is £121.78 which equates to a decrease of 0.8%

3.7 The rules regarding rent increases following the end of the 4 year period are unclear and are unlikely to be clarified in the short term.

3.8 The Royal Borough's policy is to set the rents for vacant properties at target rent (less 1% each year) unless the target rent exceeds £250 per week. In this case the decision regarding the level of rent to be set is delegated to the Director of Housing who will make a decision taking into account the household's income and employment status. It is proposed that this policy continues.

4. CHARGES FOR GARAGES AND OTHER PARKING FACILITIES

4.1 A Members Working Group was established by the Housing and Property Scrutiny Committee to review and make recommendations regarding income generated from garage and other parking facilities within the HRA. However, the Working Group will not be reporting its findings in time for any proposals to be incorporated into the 2017/18 budget.

4.2 Each year the Cabinet Member for Finance sets a minimum increase for fees and charges across the Council. It is therefore proposed that for 2017/18, the increase be linked to the rate being set by the Cabinet Member for Finance and Strategy which is an increase of 1%. Where parking facilities fall within a Traffic Management Order, the charges for these must be approved by the Cabinet Member for Planning Policy, Transport and Arts.

4.3 The proposed charges from April 2017 are set out in Appendix 7.

4.4 The TMO continue to review whether better use can be made of the facilities which are not fully used. For example some spaces have been leased out to storage companies. The budgeted income shown in this report reflects the alternative uses that have been agreed.

5. MEDIUM TERM FINANCIAL OUTLOOK

5.1 This section considers various issues and risks which could affect the level of the HRA's Working Balance over the medium term.

Working Balance

5.2 Predicting levels of income and expenditure over the medium to longer term is always extremely difficult and inevitably predictions for the early years will be more accurate.

5.3 However, the uncertainty of how much the local authority needs to contribute towards the cost of rolling out the RTB regime to Registered Providers and the rules associated with the new arrangement make it almost impossible to allow for the financial implications of this policy change.

5.4 Financial modelling, excluding the impact of the local authority contribution towards the roll out of the RTB regime, suggests that at the end of the next 5 years the cumulative surplus could be **in the region of £42 million** (see Appendix 6). This surplus reflects a reduction in the assumed interest rate chargeable on internally funded HRA debt and the additional commercial income being generated within the HRA. Whilst this can still be considered a fairly healthy surplus, it is significantly lower than the level predicted when the Self Financing regime was first introduced.

Efficiencies

5.5 The TMO has been extremely successful in achieving savings as contracts are retendered. The retendering of TMO managed contracts has resulted in ongoing annual savings of approximately £800,000.

5.6 Further efficiencies savings will continue to be sought, however, similar levels of savings should not be anticipated.

Water Charges – Ruling re London Borough of Southwark

5.7 The High Court ruling which found that the London Borough of Southwark had overcharged its tenants for their water charges is likely to affect many local authorities and housing associations. A number of authorities, including the Royal Borough, are seeking advice as part of a collective under the umbrella of the Local Government Association. However, it is anticipated that this issue will take some time to resolve and the full implications are unlikely to be settled in the current financial year.

5.8 The Council included a contingent liability for £1.3 million in its 2015/16 accounts, recognising the potential need to refund tenants. This sum is also reflected in the financial modelling set out in Appendix 6. However, whether any refunds need to be made to tenants has not yet been ascertained.

5.9 The future arrangements regarding the collection of tenants' water charges need to be determined. However, the Royal Borough's view is that the costs of undertaking such functions must be fully reimbursed by Thames Water.

Charges to Leaseholders

5.10 Following a recent Leasehold Valuation Tribunal decision, bills to leaseholders must either be sent at the start of the financial year, provided full consultation has taken place, or in full at the final account stage, if consultation is not complete prior to the start of the financial year. Leaseholders will still be required to make the same contributions for works undertaken, but the timing of payments may change i.e. income may be received later than previously would have been the case.

5.11 A new approach is being taken regarding the replacement or repair of components within the housing stock. In particular, this will relate to decisions relating to lifts and windows.

5.12 Decisions would be taken on an individual basis and would take into account a number of factors, including the implications for the HRA over the medium to long term. This approach carries some risk relating to whether leasehold charges can be recovered under the terms of the leases.

6. COMMENTS BY DIRECTOR OF LEGAL SERVICES

6.1 The Council is required by the provisions of the Local Government and Housing Act 1989 to maintain a housing revenue account (HRA) in accordance with proper practices. The sums which are to be debited and credited to the HRA are prescribed by law and are not a matter for discretion. This means that the HRA is effectively "ring fenced". The amounts which may be credited include rents and other charges such as heating and hot water. The Council is also under a duty to budget to prevent a debit balance arising on the HRA.

6.2 As set out in the report the Welfare Reform and Work Act requires that registered providers of social housing must reduce the amount of rent payable by a tenant of social housing by at least 1% per annum over 4 years, commencing in 2016. This statutory provision will restrict the ability of the Council to set rents.

7. RECOMMENDATIONS

7.1 Following discussion at the TMO Board and the Housing and Property Scrutiny Committee, a Key Decision will be taken by the Cabinet Member for Housing, Property and Regeneration to determine the budget for 2017/18 and the level of charges to be set in 2017/18. The Scrutiny Committee is asked to comment on the budget set out in this report and, in particular, on the following recommendations:

(i) Rents for vacant properties will be charged at Target Rent less the annual 1% reduction. Where the Target Rent exceeds £250 per week, the decision regarding the rent level will be delegated to the Director of Housing;

(ii) Charges to tenants for garages/car parking facilities are increased by 1% and

(iii) The HRA Working Balance and other reserves are retained at the level set out in Appendix 5.

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Background papers used in the preparation of this report:
DCLG publications and guidance to Self-Financing
Budget Working papers
TMO Board reports

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Appendix 1

HOUSING REVENUE ACCOUNT (HRA)				
	Original Budget 2016-17 £'000	Revised Budget 2016-17 £'000	Estimate 2017-18 £'000	% Variation Original & Estimate 2017-18 £'000
TMO Management Fee	10,825	10,825	10,761	-1%
Total TMO Management Fee	**10,825**	**10,825**	**10,761**	**-1%**
TCC Managed Budgets				
Planned Maintenance	6,892	5,449	6,729	-2%
Responsive Maintenance	5,942	5,842	5,990	1%
Aids and Adaptations	150	100	150	0%
Area Revenue Works	199	199	201	1%
Electricity, Heating, and Hot Water	3,413	2,783	2,761	-19%
Contract Cleaning	2,543	2,667	2,990	18%
Refuse Collection	157	160	163	4%
Pest Control	244	252	262	7%
Provision for Bad Debts	500	500	500	0%
Rents, Rates, Taxes & Other Charges	193	193	197	2%
Car Park Management	0	50	60	0%
Other Expenditure - Special Services	329	310	297	-10%
Concierge	260	245	245	-6%
Supporting People Expenditure	220	252	255	16%
Legal Costs	220	220	225	2%
Digital TV	465	465	465	0%
TCC Managed Budgets Expenditure	**21,727**	**19,686**	**21,490**	**-1%**
Dwelling Rents - Rent and Hostels	-43,248	-43,514	-42,800	-1%
Commercial Properties Rent Income	-3,427	-3,262	-3,994	17%
Garages Rent Income	-880	-850	-859	-2%
Tenants Service Charges	-4,501	-4,555	-4,820	7%
Leaseholder Service Charges	-2,688	-2,890	-3,056	14%
Heating and Hot Water Charges	-1,699	-1,634	-1,593	-6%
Insurance Charges - Leaseholders	-1,055	-783	-811	-23%
Other Contributions Towards Expenditure	-30	0	0	-100%
Other Charges for Services & Facilities	-4	-4	-4	0%
Transfer from Car Park Reserve	0	-50	-60	0%
TCC Managed Budgets Income	**-57,533**	**-57,542**	**-57,995**	**1%**
Total TCC Managed Budgets	**-35,806**	**-37,857**	**-36,505**	**2%**
Council Managed Budgets				
Capital Charges	10,247	10,001	9,198	-10%
Depreciation - Dwellings and Non Dwellings	2,830	2,830	3,056	0%
Insurance Costs	1,419	1,089	1,127	-21%
Recharges from Corporate Services	318	318	308	-3%
Recharges from Housing Services	871	871	1,002	15%
Audit Fees	20	20	20	0%
Burgess Field (Supporting People)	103	103	103	0%
Consultancy budget	13	137	13	0%
Rent, rates, other and subscriptions	34	10	10	-71%
Council Managed Budgets Expenditure	**15,855**	**15,378**	**14,836**	**-6%**
Supporting People Grant	-205	-205	-205	0%
Interest income	-49	-49	-26	-47%
Council Managed Budgets Income	**-254**	**-254**	**-231**	**-9%**
Total Council Managed Budgets	**15,601**	**15,124**	**14,606**	**-6%**
Contribution to (-) or from (+) HRA working balance (excluding Captial)	**-9,380**	**-11,907**	**-11,138**	**19%**
Transfer to Major repairs reserves	15,391	14,083	15,091	
Contibution from Leaseholders towards Major Works	-2,651	-1,476	-1,871	
Contribution to (-) or from (+) HRA working balance	**3,360**	**700**	**2,082**	
HRA Balance b/fwd	-21,410	-21,410	-20,710	-3%
Contribution to (-) or from (+) HRA working balance	3,360	700	2,082	-38%
TOTAL HRA Working Balance	**-18,050**	**-20,710**	**-18,628**	**3%**

APPENDIX 2

TMO MANAGEMENT EXPENSES

1.1 The management costs incurred by the TMO in fulfilling its responsibilities under the Management Agreement are funded from the HRA by way of a fixed management fee approved by the Council annually. The total management fee for 2016/17 is £10.825 million.

1.2 The TMO Management Fee now includes funding to cover the two Neighbourhood Support Officers which were previously managed by the Council.

1.3 The Management Fee for 2017/18 has been set at £10.761 million.

1.4 An overall inflationary provision of 1% has been allowed for 2017/18, this reflects the anticipated level of pay increases in the public sector. This provision will be used to fund pay awards and other inflationary increases on non-pay budgets e.g. utilities.

1.5 The fee for 2017/18 also includes a 2% efficiency saving which has resulted in a saving of approximately £210,000.

1.6 The Management Fee includes funding for two welfare reform officer posts which are being funded until March 2019. These officers will provide support and advice, mainly for tenants, regarding the roll out of Universal Credit and the further reduction in the benefit cap. They will also assist tenants, where appropriate, to make claims for Discretionary Housing Payments.

1.7 An additional project officer has been funded to support the Parking Review and the Members Working Group on parking facilities. This work will continue throughout 2017/18. A number of projects are now being implemented resulting in additional income of approximately £21m over the life of the leases.

1.8 Additional funding of £40,000 has been included to enable the TMO to employ an additional post within the finance team. This post will ensure that accurate data regarding energy usage is available but will enable a current contract regarding this function to be terminated. This arrangement should be cost neutral, whilst improving the data available for payment and billing purposes.

APPENDIX 3

MANAGED TMO BUDGETS

Summary Position

1.1 These budgets, managed by the TMO on behalf of the Council, comprise the major running costs relating to the management of the stock (repairs and maintenance, utilities, cleaning and refuse, etc.) and the income collected in the form of rents, service charges and other charges.

1.2 The original net budget for 2016/17 splits down between budgeted income of £57.533 million and budgeted expenditure of £21.727 million to produce a net income budget of £35.806 million. Although managed during the year by the TMO, the expenditure and income on these budgets is included in the Council's HRA. Any variance at the year-end therefore impacts on the HRA working balance.

1.3 The following table summarises the overall position for 2016/17 and 2017/18:

	2016/17 Original Budget £'000	**2016/17 Revised Budget £'000**	**2017/18 Proposed Budget £'000**
Expenditure	21,727	19,686	21,490
Income	-57,533	-57,542	-57,995
Net Managed TMO Budgets	**-35,806**	**-37,857**	**-36,505**

Revised Budget 2016/17

2.1 For the current year, the revised net TMO managed budget is £2.050 million higher than the original budget. The main factors resulting in the variance are:

- Planned Maintenance – This is forecast to be underspent by £1.443 million. This comprises:
    - External Decorations – a reduction of £1 million reflecting delays arising from the need to consider whether windows should be replaced or repaired. The budget set for 2017/18 reflects this underspend. Any further realignment between the years will be determined as part of Quarter 4 monitoring process;

- Individual Heating – ongoing savings have been achieved following the re-procurement of the gas maintenance contract at the end of 2015-16. This has resulted in a budget underspend of £168,000 in 2016-17;

- Lifts – a budget underspend of £20,000 reflecting savings arising from the re-procurement of the planned and responsive lift maintenance contracts;

- District Heating – an inflationary increase of £25,000 on planned maintenance works to communal plant;

- Central Programmed Heating Work – a reduction of £80,000 to reflect savings arising from the new maintenance contract which requires the contractor to undertake additional tasks as part of the service delivery;

- Estate Lighting – a reduction of £50,000 due to procurement savings achieved from the interim contractor whilst the tender for the permanent contract is in progress;

- Rewiring Works – a reduction of £100,000 due to a fall in the level of works required due to the higher level of activity in 2015-16;

- Water Quality – a reduction of £50,000 as a result of legislation changes that only require risk assessments to be undertaken every two years rather than every year;

- Responsive Repairs – the forecast has been reduced by £100,000. The majority of this is attributed to a £70,000 reduction in Estate Lighting, which is due to procurement savings arising on an interim contract.

- Aids & Adaptations – a reduction of £50,000 due to lower demand for minor aids and adaptation works.

- Electricity, Heating & Hot Water – The overall forecast has been reduced by £630,000. This mainly reflects savings arising from recent procurement activity which has resulted in energy prices falling on average by 20%. A credit of £87,000 has been received from the energy provider relating to 2015/16 which was not assumed when the accounts were closed.

- Contract Cleaning – an increase of £124,000 following the retendering of the service. The new contract started October 2016 and assumes payment of the London living wage and is based around quality and not just value.

- Dwelling Rents – income is forecast to be £265,000 more than was assumed in the budget. Most of this is due to a lower level of voids arising within the stock.

- Commercial Properties Rent Income – income in 2016-17 has been revised down by £165,000. This comprises:

  (i) £71,000 for Walnut Tree House due to a legal dispute resulting in no income being collected for the first half of 2016-17;

  (ii) £38,000 for Acklam Road as the lease is due to commence from October 2016 and the first six months are rent free and

  (iii) £56,000 for Holmfield House as there have been severe delays with renewing communal pipe work and thus no rent will be received in 2016-17.

- Rents from Garage and other parking facilities – income is forecast to be £30,000 lower than assumed in the budget. Following the introduction of the Traffic Management Order, income from charges for on street parking needs to be transferred to the General Fund. At the time the budget was set the level of transfer was unknown. Based on the first two quarters, it is estimated that £50,000 will need to be transferred to the General Fund in 2016-17 which reduces the level of income to be credited to the HRA.

- Heating and Hot Water Charges – income from charges is £65,000 less than was assumed when the budget was set. This reflects lower charges to tenants arising from the recent procurement work, partly offset by charges to leaseholders being higher than those assumed when the budgets were set.

  The budget variances shown against expenditure on these services and against charges for these services will always differ. The costs of buying the energy are charged to the revenue account in the year of purchase. However, charges to tenants are based on a 3-year rolling average of usage (i.e. 16-17 charges were set as an average of usage in 13-14, 14-15 and 15-16). This average usage is then charged to tenants at the current year unit rate.

- Tenant Service Charges – the forecast has been increased by £54,000. This reflects a lower level of voids and the level of costs needing to be recharged.

- Income from charges to leaseholders for insurance – income is projected to be £272,000 less than was assumed in the budget. The budget was set prior to the insurance contract being retendered (see below).

- Income from Leaseholder Service charges - this is projected to increase by £202,000 due to variations arising during the final accounts process.

- Income from Major Works - income is projected to be £1.175 million less than was assumed in the budget. Following a recent Leasehold Valuation Tribunal decision, bills to leaseholders must either be sent at the start of the financial year, provided full consultation has taken place, or in full at the final account stage, if consultation is not complete prior to the start of the financial year. The budgets for 2016/17 were set prior to the consultation process taking place. Some consultation has now been deferred to later in 2016/17 whilst surveys of the blocks are completed. Where leaseholders were not billed at the start of 2016/17, they will now be billed in September 2017 as part of the final accounts process.

Budget 2017/18

3.1 The proposed TMO managed budget for 2017/18 is for net income of £36.505 million. This surplus is £699,000 more than assumed in the 2016/17 original budget.

3.2 The main factors resulting in the proposed changes are:

- Planned Maintenance – a reduction of £163,000 due to savings arising from the retendering of the Individual Heating contract.
- Responsive Maintenance – an increase of £49,000 due to inflationary pressures.

- Electricity, Heating and Hot Water – expenditure on energy is predicted to be £652,000 less than was assumed in the original budget. This reflects both lower usage and lower prices, and also the planned termination of a contract with a data validation service (see above). It is difficult to predict the level of any price increases in 2017/18, as a result no price change has been assumed in the budget. The budget can be amended once the position becomes clearer.

- Contract Cleaning – the new contract has been procured on the basis that the London Living Wage will be paid to employees. The new contract started in October 2016. The impact of this is an additional £447,000 for 2017/18. Under the contract terms, no inflationary increase will be payable for the first 18 months.

- Car Parking Management - this budget reflects the costs of implementing the new car parking arrangements. It is anticipated that these will be fully recovered through a draw down from the Car Parking Reserve Account.

- Income from dwelling rents is expected to be £448,000 lower than was assumed in the current year's original budget. This reflects the rental reduction of 1% which was announced in the Chancellor's budget (2015) and the loss of income from properties being sold under the Right to Buy regime. A void level of 1.5% has been assumed.

- Rental income from commercial properties is expected to increase by £567,000 compared to the 2016/17 original budget. This is primarily due to market rents being charged to both Council services and voluntary organisations and additional income arising from the renegotiation of leases by the Commercial Property Team.

- Income from charges for garages and other parking facilities has decreased by £22,000. This reflects the introduction of the Traffic Management Order whereby income from on-street parking must be charged to the Council's General Fund. However, it is anticipated that expenditure linked to the new car parking arrangements will satisfy the criteria needed to be funded through the Car Parking Reserve Account.

- Income from Tenants Service Charges is forecast to be £319,000 more than was assumed in the current year's original budget. Of this, £220,000 is due to the impact of the new cleaning contract procured on the basis that the London Living Wage is paid to employees (see above).

- Income from Leaseholder Service Charges is forecast to be £367,000 more than was assumed in the 2016/17 budget. This includes a 2% RPI uplift assumed for all costs and the impact of the new cleaning contract procured on the basis that the London Living Wage is paid to employees.

- Income from Heating and Hot Water Charges is forecast to be £106,000 less than was assumed in the current year's original budget. Charges are based on activity over the previous 3 years and reflect the continued downward trend in energy prices.

- Income from Insurance Charges to Leaseholders is £245,000 less than was assumed in the original budget. The original budget was set prior to the insurance contract being retendered.

- Major Works Service Charges – income is £780,000 less than assumed in the 2016/17 budget. This reflects the new arrangements following the recent Leasehold Valuation Tribunal decision (see above). The budget, as presented, only includes works which have been confirmed at November 2016. The position may change before April 2017, a corresponding change can then be made to the budget.

APPENDIX 4

COUNCIL MANAGED BUDGETS

1.1 The budgets within the HRA which continue to be directly managed by the Council comprise the following elements:

- Costs relating to the financing of HRA debt;
- Costs relating to the funding of the capital programme including a provision for depreciation;
- Costs relating to property insurance and
- Costs incurred in supporting the Council's statutory responsibilities in relation to the HRA including audit, performance review, accounting/legal advice, the cost of Council officer time spent on HRA matters and support to the Cabinet Members with responsibility for Housing.

Financing HRA Debt

2.1 Prior to the introduction of Self-Financing, the methodology for determining capital financing charges to be met from the HRA was prescribed. Under Self-Financing, these charges must be determined locally.

2.2 In determining the charge to be made to the HRA for the use of General Fund resources, the underlying principle must be to ensure the effect on both the HRA and the General Fund is fair and equitable.

2.3 In 2012, it was agreed as part of the Council's Treasury Strategy that the charge for using internal resources would be equal to the higher of the PWLB three month variable rate or the Royal Borough's average interest rate. This reflects the short to medium-term nature of General Fund support for HRA borrowing whilst using an interest rate that reflects market short term rates with a small premium. This approach penalises neither the HRA nor the General Fund and so achieves the principle of being both fair and equitable.

2.4 The exception to this was the funding of the Self Financing settlement payment (£24.960 million). The Council matched the special rates made available to local authorities for 5 years to fund the settlement payment, on this loan a rate of 1.24% is being charged. This arrangement ends in March 2017 and from 2017/18 rates similar to those charged on other loans from the Council's General Fund to the HRA will apply.

2.5 In 2017/18, the overall debt to be financed is £210.164 million. Of this, £130.758 million will be funded from loans from the Public Works Loans Board, with the balance being funded through use of the Council's cash reserves within the General Fund.

2.6 Based on the methodology outlined above, the average interest rate chargeable to the HRA on actual external debt is estimated to be 6.32% and on internally funded debt a rate of 1.05% is currently forecast.

2.7 In 2004/05, Government changes to Capital Financing accounting included the abolition of the HRA's statutory annual duty to repay 2% of debt. There are no plans to repay debt over the medium term. However, this will be reviewed each year as part of HRA business planning.

Funding the HRA Capital Programme

3.1 As part of Housing subsidy, an allocation to fund capital expenditure on HRA properties was received each year. This was known as the Major Repairs Allowance (MRA). Local authorities were allowed to use the level of MRA as a proxy for depreciation.

3.2 Under Self-Financing, local authorities must determine the annual funding to be allocated to the capital programme. They also need to determine the level of depreciation chargeable to the HRA which must be in accordance with appropriate accounting practices.

3.3 In conjunction with Corporate Finance a depreciation charge of £3.056 million on dwellings and non-dwellings has been calculated. This provision provides a source of funding to meet capital expenditure requirements within the HRA stock.

3.4 The 2017/18 budget includes a further contribution towards the HRA Capital Programme in 2017/18. An overall revenue contribution of £18.147 million has been assumed in the 2017/18 budget, this includes the depreciation provision set out above. The planned uses of this funding are set out in the HRA Business Plan.

Summary Position

4.1 The following table summarises the revised budget for the current year and the proposed budget for 2017/18:

	2016/17 **Original Budget £'000**	**2016/17** **Revised Budget £'000**	**2017/18** **Proposed Budget £'000**
Expenditure	15,855	15,378	14,836
Income	-254	-254	-231
Net Council Managed Budget	**15,601**	**15,124**	**14,606**

Revised Budget 2016/17

5.1 In terms of the current year, the revised budget indicates a decrease of £477,000 which is primarily due to:

- Capital Charges – a decrease of £246,000 in the cost of debt charges (interest costs on borrowing to fund the outstanding debt), is due to a decrease in the interest rate used to calculate the debt charges from that used in the original budget.

- Insurance cost – the forecast underspend of £330,000 is due to the budget being set prior to the building insurance contract being retendered. This budget comprises all insurances relating to the HRA stock, not just that relating to leaseholders.

- Consultancy budget – an overspend of £124,000 is predicted reflecting the need for external advice relating to a number of issues and projects. This includes the forced sale of Higher Value Voids, the retention of receipts arising from Right to Buy sales and specialist advice regarding regeneration projects.

Budget 2017/18

6.1 The proposed Council managed budgets for 2017/18 indicates a decrease of £995,000. The main factors are:

- Capital Charges – a decrease of £1.049 million in the cost of debt charges (interest costs on borrowing to fund the outstanding debt) reflects the decrease in the interest rate used to calculate the debt charges and the refinancing of capital debt as PWLB loans fall out and use is made of General Fund cash reserves at a rate of 1.05%.

- Depreciation – the £226,000 increase in depreciation is mostly due to an increase in non dwelling commercial properties depreciation. This is fully offset by the Council's decision to charge market rents to users of HRA commercial properties.

- Insurance cost – the forecast underspend of £292,000 is due to the budget being set prior to the building insurance contract being retendered. This budget comprises all insurances relating to the HRA stock, not just that relating to leaseholders.

- Charges made by Housing Services - an increase of £131,000. This is mainly due to additional resources within the regeneration team.

APPENDIX 5

HRA WORKING BALANCE AND RESERVES

Working Balance

1.1 As at 1 April 2016, the working balance was £21.410 million. As a result of the projected drawdown from the working balance of £700,000 (see table in paragraph 2.3), the forecast for the working balance as at 31 March 2017 is £20.710 million. The proposed budgets for 2017/18 (see table in paragraph 2.3) would result in a drawdown from the working balance of £2.082 million resulting in a projected working balance at the end of 2017/18 of £18.628 million.

1.2 The projected movements in the working balance up to March 2018 can therefore be summarised as follows:

HRA Working Balance		
		£'000
	Opening balance (1 April 2016)	21,410
add	Projected outturn variance 2016/2017	-700
equals	Projected Working Balance (31 March 2017)	20,710
Less	Budgeted drawdown from Working Balance 2017/2018	-2,082
equals	Projected Working Balance (31 March 2018)	18,628

1.3 Any proposed uses of the working balance will be considered within the HRA Business Plan.

HRA Reserves

2.1 The following table summarises the level of HRA reserves:

Heading	1 April 2016 (Actual) £'000	31 March 2017 (Forecast) £'000	31 March 2018 (Forecast) £'000
TMO Managed Reserves			
Controlled Repairs/Area Revenue Works Reserve	344	344	344
Major Repairs Reserve	706	0	0
Total	1,050	344	344

Major Repairs Reserve

2.2 The following table summarises the projected position on the Major Repairs Reserve:

Major repairs reserves (MRR)	**Original Budget 2016-17 £'000**	**Revised Budget 2016-17 £'000**	**Estimate 2017-18 £'000**
Brought Forward	0	-706	0
HRA Depreciation transfer to MRR	-2,830	-2,830	3,056
HRA transfer to MRR	-15,391	-14,083	15,091
Capital expenditure funded by MRR	18,221	17,619	18,147
Carried Forward	0	0	0

APPENDIX 6

HOUSING REVENUE ACCOUNT BUSINESS PLAN - 2016/17 to 2021/22

Financial modelling has been undertaken to estimate the level of surpluses that might arise on the HRA over the next 5 years. The following table summarises the results of the modelling exercise:

	£000's	In Year (Surplus)/Deficit £000's	Cumulative (Surplus)/Deficit £000's
Balance at 1st April 2016			**-21,410**
Income received in 2016/17	-59,272		
Expenditure in 2016/17	59,971		
Deficit arising in 2016/17		699	
Balance at 31st March 2017			**-20,711**
Income received in 2017/18	-60,096		
Expenditure in 2017/18	62,178		
Surplus arising in 2017/18		2,082	
Balance at 31st March 2018			**-18,629**
Income received in 2018/19	-62,216		
Expenditure in 2018/19	59,752		
Surplus arising in 2018/19		-2,464	
Balance at 31st March 2019			**-21,093**
Income received in 2019/20	-59,780		
Expenditure in 2019/20	53,597		
Surplus arising in 2019/20		-6,183	
Balance at 31st March 2020			**-27,276**
Income received in 2020/21	-60,513		
Expenditure in 2020/21	53,731		
Surplus arising in 2020/21		-6,782	
Balance at 31st March 2021			**-34,058**
Income received in 2021/22	-61,156		
Expenditure in 2021/22	52,946		
Surplus arising in 2021/22		-8,210	
Balance at 31st March 2022			**-42,268**

A number of assumptions have been made within the financial model. The key assumptions are as follows:

- The charge to the HRA where debt is financed internally is in accordance with the methodology set out in Appendix 4 paragraph 2.3 i.e. the interest rate is equal to the higher of the PWLB three month variable rate or the Royal Borough's average interest rate;

- Inflation assumptions over the period are as follows: an annual increase of 1% on the TMO Management Fee from 2018/19 and an annual increase of 2% on other expenditure budgets and

- Over the 5 years 2017/18 to 2021/22, revenue contributions of £59.4 million are assumed to be made to the Main Capital Programme. This can be broken down over the 5 years as follows:

2017/18	£16m
2018/19	£13.4m
2019/20	£10m *
2020/21	£10m *
2021/22	£10m *

*The adequacy of this provision will need to be reviewed, taking into account available resources.

- Additional revenue contributions totalling £3.8 million have been made towards other schemes within the Capital Programme.

Some sensitivity analysis has been undertaken to estimate the potential changes if key assumptions were to change. The results of some scenarios considered are:

- A 1% increase in the cost of financing debt internally would reduce the surplus at the end of the period by £4.699 million to £37.569 million.

- A 1% increase in the cost of expenditure (excluding debt financing charges) met by the HRA would reduce the surplus by £1.186 million to £41.082 million.

- The combined effect of the above two scenarios would decrease the surplus by £5.885 million to £36.383 million.

Appendix 7

CHARGES FOR PARKING PERMITS

Charges for Tenants and Leaseholders (TLSC) from 1 April 2017

Facility	Current Standard Charge per week – Tenants and Leaseholders (TLSC)	Proposed Standard Charge per week – Tenants and Leaseholders (TLSC) from 1 April 2017
Self-Contained Garage – North (excluding Lancaster West)	12.87	13.00
Self-Contained Garage – South	25.28	25.53
Self-Contained Garage - Lancaster West	21.95	22.17
Self-Contained Garage – Norwood Green, Southall	6.75	6.82
External Hardstand – North (inc. Lancaster West)	5.14	5.19
External Hardstand – South	6.62	6.69
Indoor Car Park Bay – Elm Park Gardens	25.64	25.90
Indoor Car Park Bay – Walnut Tree House	13.82	13.96
Indoor Car Park Bay – Warwick Road	11.74	11.86
Indoor Car Park Bay – Worlds End	16.88	17.05
Indoor Car Park Bay – Swinbrook Estate (new charge to be introduced when bays created)	8.99	9.08
Charges to tenants and leaseholders with a disabled persons purple badge	Nil	Nil

Charges for Other Users (OUSC) from 1 April 2017

Facility	Current Standard Charge per week – Other Users (OUSC)	Proposed Standard Charge per week – Other Users (OUSC) from 1 April 2017
Self-Contained Garage – North (excluding Lancaster West)	32.17	32.49
Self-Contained Garage – South	63.22	63.85
Self-Contained Garage -Lancaster West	54.86	55.41
Self-Contained Garage – Norwood Green, Southall	16.86	17.03
External Hardstand – North (inc. Lancaster West)	12.85	12.98
External Hardstand – South	16.54	16.71
Indoor Car Park Bay – Elm Park Gardens	64.11	64.75
Indoor Car Park Bay – Walnut Tree House	34.53	34.88
Indoor Car Park Bay – Warwick Road	29.33	29.62
Indoor Car Park Bay – Worlds End	42.20	42.62
Indoor Car Park Bay – Swinbrook Estate (new charge to be introduced when bays created)	22.46	22.68
Charges to tenants and leaseholders with a disabled persons purple badge	Nil	Nil