

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA**

**TMO BOARD – 5 JANUARY 2015**

**TENANTS CONSULTATIVE COMMITTEE - 6 JANUARY 2015**

**HOUSING AND PROPERTY SCRUTINY COMMITTEE – 7 JANUARY 2015**

**REPORT BY THE DIRECTOR FOR HOUSING AND THE TMO CHIEF  
EXECUTIVE**

**HOUSING REVENUE ACCOUNT - RENT REPORT 2015/16**

This report sets out the proposed budget for the Housing Revenue Account (HRA) in 2015/16. It also recommends the level of increase to be applied to rents and other charges made to tenants and leaseholders who live in Council properties managed by the TMO.

The proposals in this report result in an average increase in rents of 4.66%.

**FOR COMMENT**

**1. BACKGROUND**

- 1.1 A new regime for funding social housing within the Housing Revenue Account was introduced in April 2012. This is known as Self-Financing and aims to put local authorities in a position where they can support their own stock from their own income. This report has been prepared within the new funding regime and concentrates on the budget being set for 2015/16.
- 1.2 The results of some financial modelling over the medium term are set out in section 5.

**2. BUDGETS – 2014/15 AND 2015/16**

- 2.1 Following the ending of the agreement with the Lancaster West Estate Management Board on 31 May 2014, the budgets for expenditure on Lancaster West will no longer be shown separately but will be incorporated into the overall budgets managed by the TMO. Some of the variations from the 2014/15 original budget are due to this change in presentation.
- 2.2 Management arrangements for budgets within the Housing Revenue Account (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 known within the agreement as Tenants Consultative Committee (TCC) budgets. 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.

2.3 An overall statement of HRA budgets for the current year and 2015/16 is set out in Appendix 1. Total gross expenditure in 2015/16 is budgeted at £47.944 million with income budgeted to be £58.519 million. This results in a budgeted surplus of £10.575 million which is added to the Working Balance. In 2015/16, it is planned to transfer £18.661 million from the Working Balance to the Major Repairs Reserve as a contribution towards the Capital Programme, this is partly funded from contributions from leaseholders. The net effect in 2015/16 is to reduce the Working Balance by £7.272 million.

2.4 The following table summarises the changes to the Working balance in both 2014/15 and 2015/16:

<b>Heading</b>	<b>2014/15 Original Budget £'000</b>	<b>2014/15 Revised Budget £'000</b>	<b>2015/16 Proposed Budget £'000</b>
TMO management fee	10,505	10,505	10,631
Gross expenditure budgets managed by TMO	21,833	21,315	21,148
Gross expenditure budgets managed by the Council	17,201	17,032	16,165
<b>Total Budgeted Gross Expenditure</b>	<b>49,539</b>	<b>48,852</b>	<b>47,944</b>
Income budgets managed by the TMO	-56,432	-55,954	-58,265
Income budgets managed by the Council	-274	-279	-254
<b>Total Income Budgets</b>	<b>-56,706</b>	<b>-56,233</b>	<b>-58,519</b>
<b>Net Budgeted Surplus</b>	<b>-7,168</b>	<b>-7,380</b>	<b>-10,575</b>
Contribution towards the Major Repairs Reserve to fund Capital Expenditure	6,468	7,945	18,661
Contribution from leaseholders towards Major Works	-2,000	-1,157	-814
<b>Overall Change in Working Balance</b>	<b>-2,700</b>	<b>-592</b>	<b>7,272</b>

- 2.5 Further details on the current year's budget and the proposed budget for 2015/16 are set out in the following appendices:
- The TMO Management Fee (Appendix 2);
  - Managed TCC Budgets (Appendix 3) and
  - Council Managed Budgets (Appendix 4).
- 2.6 Details of the Working Balance and Reserves are set out in Appendix 5.
- 2.7 A potential risk to the budget arises from the possible reduction in the Discretionary Housing Payments Fund. The Fund was increased to mitigate some of the impacts of the welfare reforms which have been introduced by Central Government and the planned introduction of the Universal Credit.

### **3. POLICY FOR SETTING RENT LEVELS FOR HRA DWELLINGS**

#### **Rent Policy from April 2014**

- 3.1 In 2002/2003, the Government introduced its "rent restructuring" regime where rents are set in line with a national formula which is used to calculate a target/formula rent for each property.
- 3.2 The assumption was that actual rents move to target rent in equal steps. However, the Government introduced a number of guidelines (known as caps and limits) to protect tenants from excessive increases in rents. These constraints have resulted in many rents in the Royal Borough being set at levels which are considerably below their target/formula rent.
- 3.3 In order to generate additional resources to fund capital expenditure, a revised rent policy was introduced in April 2014. The key aspects of this new policy are as follows:
- a) rents for individual properties will converge with their target/formula rent over the five year period 2014/15 to 2018/19;
  - b) the maximum increase for any individual property will be limited to 10% in each of the 5 years, this will protect households from high rent increases;
  - c) Re-lets are let at target rent unless the target rent would exceed £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 and

- d) Target rents would be increased annually by the retail price index plus 0.5%.

### **Recent Guidance from Central Government**

- 3.4 During the period of the rent review in 2013/14, the Scrutiny Committee noted the Government announcement regarding potential changes to the rent restructuring regime. In May 2014, the Government published its proposals following consultation. The key changes effective from April 2015 are:
  - a) To continue to set target/formula rents on the same basis;
  - b) To increase rents annually by no more than CPI + 1%. This changes the annual inflation increase from RPI + 0.5% to CPI + 1% and also removes the concept of convergence where rents increase to a target/formula rent over time;
  - c) To retain the current national caps and
  - d) To encourage landlords to re-let vacant properties at target/formula rent.

### **Rent Policy from April 2015**

- 3.5 The Government's rent policy set out above applies to both Registered Providers and Local Authorities, but for local authorities the policies remain non-statutory.
- 3.6 It is proposed to continue with the policy adopted in April 2014, with one exception. The formula used to inflate rents will be amended to CPI + 1%. We could keep RPI + 0.5% but in later years our average rents could exceed the Limit Rent meaning there would be a shortfall in Housing Subsidy which would need to be met by the HRA.
- 3.7 This approach would mean that the calculation of target/formula rents continues to remain in line with the Government's approach, but a more local approach is used to determine actual rents chargeable to households.
- 3.8 On this basis, the average rent in 2015/16 would be £123.81 per week which equates to an increase of 4.66%.
- 3.9 An Equalities Impact Assessment has been undertaken and is attached at Appendix 8.

#### **4. OTHER CHARGES**

- 4.1 A Members Working Group has been established by the Housing and Property Scrutiny Committee to review and make recommendations regarding income generated from parking facilities within the HRA, this includes charges for garages and parking bays.
- 4.2 Any recommendations from this review could not be considered prior to the setting of charges for 2015/16. The increase in charges for garages and parking bays will therefore, as in previous years, be linked to the average dwelling rent increase which for 2015/16 is 4.66%. The proposed charges from April 2015 are set out in Appendix 7.

#### **5. FINANCIAL OUTLOOK – MEDIUM TERM**

- 5.1 Predicting levels of income and expenditure over the medium to longer term is extremely difficult and inevitably predictions for the early years will be more accurate. However, the self-financing regime has removed the uncertainty around the annual announcements regarding housing subsidy but has introduced local decision making regarding capital financing and depreciation.
- 5.2 The introduction of self-financing was broadly welcomed by local authorities and has improved the financial outlook for our HRA. Financial modelling suggests that at the end of the next 5 years the cumulative surplus could be **in the region of £35 million**. These surpluses enable us to plan further investment in our housing stock and will be considered as part of the HRA Business Planning process.
- 5.3 This surplus arises largely because, under self-financing, increases in rent income can be retained by the HRA rather than being returned to Central Government through the Housing Subsidy process. The position reflects the value for money savings which have been achieved in recent years and cost pressures which are anticipated in 2015/16. Identifying further efficiency savings continues to remain a key target for both the TMO and the Council.
- 5.4 Appendix 6 provides further details of the surpluses anticipated over the next 5 years.

## **6. COMMENTS BY DIRECTOR OF LEGAL SERVICES**

- 6.1 The proposed increases applied to rent and other charges to tenants will require the Council to comply with the terms of the tenancy agreement when imposing the intended alterations and increases in charges. Often tenancy agreements make provision for the landlord to alter the rent and any other charges by giving the tenant four weeks' notice in writing. Furthermore, Section 24 of the Housing Act 1985 provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses.
- 6.2 In respect of Leaseholders, the Council will need to comply with the statutory consultation provisions of any relevant legislation and the terms of the leases.
- 6.3 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.
- 6.4 When making a decision in relation to any of its functions such as to changes in service provision and/ or making any decisions such as the one contained in this report due regard must be had to the general equality duty imposed by the Equalities Act 2010. The public sector equality duty consists of a general equality duty which is set out in section 149 of the Equality Act 2010 and there are specific duties which are imposed by secondary legislation. This duty came into force in April 2011. The duty covers the following eight protected characteristics: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, marriage or civil partnership, sex and sexual orientation.
- 6.5 Those subject to the equality duty must, in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
  - Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - Foster good relations between people who share a protected characteristic and those who do not.

- 6.6 An Equalities Impact Assessment (EIA) attached at Appendix 8 of this report identifies the ways in which the adverse impact of the proposal can be reduced.

## **7. RECOMMENDATIONS**

7.1 Following discussion at the TMO Board, the Tenants Consultative Committee 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 2015/16 and the level of rents and charges to be set in 2015/16. The Scrutiny Committee is asked to comment on the budget set out in this report and, in particular, on the following recommendations:

- (i) Rents are increased in accordance with the proposals set out in section 3 which result in an average rent increase of 4.66% in 2015/16;
- (ii) Charges to tenants for garages/car parking facilities are increased by 4.66%;
- (iii) Tenant (including Hostels) and Leaseholder Service Charges for 2015/16 are increased in line with revised estimates of costs recoverable and
- (iv) The HRA Working Balance and other reserves are retained at the level set out in Appendix 5.

Laura Johnson  
Director of Housing

Nicholas Holgate  
Town Clerk and Executive Director of Finance

Robert Black  
TMO Chief Executive

### Background papers used in the preparation of this report:

DCLG publications and guidance to Self-Financing  
Budget Working papers  
TMO Board reports

Contact officer: Mr S Mellor on 020 7361 2370

# APPENDIX 1

HOUSING REVENUE ACCOUNT (HRA)				
	Original Budget	Revised Budget	Estimate	% Variation Original & Estimate
	2014-15	2014-15	2015-16	2015-16
	£'000	£'000	£'000	£'000
TMO Management Fee	10,138	10,444	10,631	5%
Lancaster West Management Fee	367	61	0	-100%
<b>Total TMO Management Fee</b>	<b>10,505</b>	<b>10,505</b>	<b>10,631</b>	<b>1%</b>
<b>TCC Managed Budgets</b>				
Planned Maintenance	7,096	6,708	6,279	-12%
Responsive Maintenance	5,192	5,632	5,905	14%
Lancaster West EMB Expenditure	627	105	0	-100%
Aids and Adaptations	150	120	150	0%
Area Revenue Works	199	199	199	0%
Electricity, Heating, and Hot Water	3,610	3,620	3,663	1%
Contract Cleaning	2,228	2,266	2,303	3%
Refuse Collection	154	154	157	2%
Pest Control	199	240	244	23%
Provision for Bad Debts	723	473	500	-31%
Rents, Rates, Taxes & Other Charges	165	165	192	17%
Car Park Management	35	35	35	0%
Other Expenditure - Special Services	304	363	304	0%
Security Costs	240	289	299	25%
Supporting People Expenditure	220	257	220	0%
Legal Costs	210	210	218	4%
Digital TV	480	480	480	0%
<b>TCC Managed Budgets Expenditure</b>	<b>21,833</b>	<b>21,315</b>	<b>21,148</b>	<b>-3%</b>
Dwelling Rents - Rent and Hostels	-42,344	-42,045	-43,936	4%
Commercial Properties Rent Income	-3,039	-3,020	-3,258	7%
Garages Rent Income	-727	-727	-758	4%
Tenants Service Charges	-4,423	-4,247	-4,335	-2%
Leaseholder Service Charges	-2,353	-2,524	-2,584	10%
Heating and Hot Water Charges	-2,445	-2,209	-2,312	-5%
Insurance Charges - Leaseholders	-1,010	-999	-1,023	1%
Supporting People Contract Income	-26	-26	-26	0%
Other Contributions Towards Expenditure	-30	-30	-30	0%
Other Charges for Services & Facilities	-35	-35	-4	-89%
Transfer from Lancaster West reserves to working balance	0	-92	0	0%
<b>TCC Managed Budgets Income</b>	<b>-56,432</b>	<b>-55,954</b>	<b>-58,265</b>	<b>3%</b>
<b>Total TCC Managed Budgets</b>	<b>-34,600</b>	<b>-34,639</b>	<b>-37,117</b>	<b>7%</b>
<b>Council Managed Budgets</b>				
Capital Charges	11,394	11,437	10,838	-5%
Depreciation - Dwellings and Non Dwellings	2,946	2,946	2,673	0%
Insurance Costs	1,358	1,338	1,378	1%
Recharges from Corporate Services	330	330	318	-4%
Recharges from Housing Services	622	622	789	27%
Audit Fees	52	20	20	-62%
Miscellaneous expenses	59	0	0	-100%
Burgess Field (Supporting People)	103	103	103	0%
Consultancy budget	13	13	13	0%
Rent, rates, other and subscriptions	24	24	34	41%
Stock Options/Regeneration	300	200	0	-100%
<b>Council Managed Budgets Expenditure</b>	<b>17,201</b>	<b>17,032</b>	<b>16,165</b>	<b>-6%</b>
Supporting People Grant	-205	-205	-205	0%
Interest income	-69	-74	-49	-29%
<b>Council Managed Budgets Income</b>	<b>-274</b>	<b>-279</b>	<b>-254</b>	<b>-7%</b>
<b>Total Council Managed Budgets</b>	<b>16,927</b>	<b>16,753</b>	<b>15,911</b>	<b>-6%</b>
Contribution to (-) or from (+) HRA working balance (excluding Capital)	<b>-7,168</b>	<b>-7,380</b>	<b>-10,575</b>	<b>48%</b>
Transfer to Major repairs reserves	6,468	7,946	18,661	
Contribution from Leaseholders towards Major Works	-2,000	-1,157	-814	
Contribution to (-) or from (+) HRA working balance	<b>-2,700</b>	<b>-592</b>	<b>7,272</b>	
HRA Balance b/fwd	-18,942	-18,942	-19,534	3%
Contribution to (-) or from (+) HRA working balance	-2,700	-592	7,272	-369%
<b>TOTAL HRA Working Balance</b>	<b>-21,642</b>	<b>-19,534</b>	<b>-12,262</b>	<b>-43%</b>



## **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 2014/15 is £10.505 million.
- 1.2 The Management Fee for 2015/16 has been set at £10.631 million.
- 1.3 An overall inflationary provision of 1.2% has been allowed for 2015/16. This provision will be used to fund pay awards and other inflationary increases on non-pay budgets e.g. utilities. This level of management fee will enable the TMO to maintain and improve its level of services within the financial framework.
- 1.4 In order to support the welfare changes, two welfare reform officers were created for a two year period. It is planned to extend this period for a further year to March 2016. These officers are providing support and advice mainly for tenants affected by the Under Occupancy Charge and Benefits Cap. This includes assistance to claim for Discretionary Housing Payments which mitigate the risk of income loss to the Council. The position will be reviewed during 2015/16 when the timescales for introducing Universal Credit will be clearer.
- 1.5 An additional project officer will continue to be funded, focusing on the planned Parking Review and supporting the Members Working Group on parking facilitates. The first of the car park projects is now in place with a further three due to come to fruition over the next year. The projects are forecast to bring in an income of approximately £10m over the life of the leases. The project officer will also be responsible for the implementation of the Traffic Management Order on some estates which is due to come into force in April 2015. This is designed to protect income from parking charges whilst meeting the new legislative requirements.

## APPENDIX 3

### MANAGED TCC 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 2014/15 splits down between budgeted income of £56.432 million and budgeted expenditure of £21.832 million to produce a net income budget of £34.6 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 2014/15 and 2015/16:

	<b>2014/15 Original Budget £'000</b>	<b>2014/15 Revised Budget £'000</b>	<b>2015/16 Proposed Budget £'000</b>
Expenditure	21,832	21,315	21,148
Income	-56,432	-55,954	-58,265
<b>Net Managed TCC Budgets</b>	<b>-34,600</b>	<b>-34,639</b>	<b>-37,117</b>

#### Revised Budget 2014/15

- 2.1 For the current year, the revised net TCC managed budget is £39,000 higher than the original budget. The main factors resulting in the variance are:
- Planned Maintenance – This is forecast to be under spent by £388,000. This comprises:
    - Individual Heating Works – expenditure is expected to be £150,000 less than the budget as the planned domestic boiler renewals are of a capital nature and will therefore form part of the main capital programme.
    - External Decorations – expenditure is forecast to be £140,000 less than the original allocation. The progress on the external decorations has been good however the cost of the works expected to be completed by the end of 2014/15 is lower than originally budgeted.

- Estate Lighting – forecast expenditure is £50,000 below the original budget. This reflects savings arising from the re-procurement of the contract.
- Individual Heating – forecast expenditure has reduced by £40,000. This reflects the revised planned maintenance contract and some portion of the work falling into the capital programme.
- Responsive Maintenance – This is forecast to be £440,000 above budget. This is as a result of budget virements during the year. As the Lancaster West EMB has disbanded the expenditure budgets have been merged with the borough wide budget lines.
- Lancaster West EMB Expenditure – The forecast underspend of £522,000 arises from the virements needed to merge the Lancaster West expenditure budgets with borough wide budgets. These virements relate to Responsive Maintenance (mentioned above), Contract Cleaning, Pest Control, Special Services and Security Costs. The budgets have been pro-rated for 2014/15 as the EMB disbanded at the end of May 2014.
- Provision for Bad Debts – the 2014/15 budget included an additional provision to reflect the potential implications of the welfare reform changes. The welfare reform officers have successfully engaged with most of the households affected by the changes and have, where appropriate, encouraged households to claim a Discretionary Housing Payment. However, whilst it is unlikely this provision will be fully used in year, predicting the outturn position is difficult, given, the need for tenants to continue to engage in the process. The in year provision has been reduced by £250,000 and the budget will continue to be closely monitored and amended if necessary.
- Other Expenditure Special Services – The main reason for the overspend of £59,000 is the increase in resources to support the creation of a Traffic Management Order which can be funded from a virement from Council Managed budgets.
- Dwellings Rents – income is projected to be £299,000 less than assumed when the budget was set. This income loss is mainly due to the number of properties being sold under the Right to Buy legislation (£185,000) and a higher level of voids than had been assumed. The void level as at September 2014 was 1.175% compared to 0.75% in September 2013, this is still below the 2% level assumed by the Government in the Self Financing determination.

- Tenant Service Charges – a decrease of £176,000 reflects the actual cost of services provided to tenants. A small proportion of this is attributable to the right to buy that have taken place since the last quarter of 2013/14. The balance reflects lower levels of expenditure on services chargeable to tenants than were assumed when budgets were set.
- Leasehold Service Charges – forecast income is £171,000 more than assumed when budgets were set. This reflects the final accounts for leaseholders service charges and is mainly due to the cost of maintenance works rechargeable to leaseholders being more than was assumed when the charges for 2013/14 were set.
- Heating and Hot Water Charges – income is forecast to be £236,000 lower than assumed when the budget was set. This is partly due to lower gas prices being achieved but also reflects variations in consumption levels. There will always be a variation between costs and income as expenditure relates to the costs of procuring energy in year whilst charges to tenants and leaseholders are based on consumption levels averaged over the previous 3 years.

### **Budget 2015/16**

3.1 The proposed TCC managed budget for 2015/16 is for net income of £37.117 million. This surplus is £2.517 million more than assumed in the original budget. The main factors resulting in the proposed changes are:

- Planned Maintenance – an overall budget decrease of £817,000. The main reason for this is the provision for the External Decorations Programme is being set at £2,000,000, whereas the budget for 2014/15 (£2,600,000) included an extra provision of £600,000 which had been carried forward from the previous year.

Other savings within Planned Maintenance include a reduction of £150,000 in individual programmed heating works due to a larger scale programme being planned as part of the 2015/16 capital programme and savings of £50,000 on estate lighting arising from the re-procurement of the contract.

- Responsive Maintenance – an overall budget increase of £713,000 of which £506,000 is due to budget virements needed to merge the Lancaster West budgets with borough wide budgets. The remainder of the increase is due to an inflation provision for responsive repairs and voids.

- Lancaster West EMB Expenditure – a reduction of £627,000 reflecting the disbandment of the EMB with budgets being merged with borough wide budgets (see above).
- Electricity, Heating and Hot Water – a budget increase of 53,000. This budget provision is based on current consumption levels and assumes current rates continue. The TMO procures energy costs through the Office of Government and Commerce Buying Solutions. The large volumes purchased for communal heating systems enable the TMO to access energy at discounted rates through use of the market, resulting in rates being significantly lower than could be achieved by domestic users with their own individual heating systems. No inflationary increase has been assumed in this budget.
- Contract Cleaning – an overall budget increase of £75,000. This mainly relates to inflation which is needed to meet the provision included in the main borough wide cleaning contract.
- Provision for Bad Debt – an overall provision of £500,000 has been set for 2015/16 which is £223,000 less than was assumed in the 2014/15 budget. The two Welfare Reform Officers will continue to provide support and advice to households impacted by the welfare reform changes, thereby helping to contain the level of bad debts arising in these cases.
- Security Costs – a budget increase of £59,000 reflecting the virement from the Lancaster West budget.
- Income from Dwelling Rents – the estimated income from rents in 2015/16 is £1.592 million more than was assumed in the 2014/15 original budget. This reflects the rent policy to converge individual rents with their target rent over a 5 year period.
- Commercial Properties rent income – an increase of 7% reflecting work being undertaken by officers within Corporate Property and the TMO. A TMO-led project has identified alternate uses for derelict estate car parks; in 2013/14 and 2014/15 Cabinet approved proposals to commercially lease basement areas at Acklam Road for conversion into an office workspace and at Walnut Tree House and Holmefield House for conversion into self-storage businesses. These long-term leases are structured to allow the lessees to recoup their initial capital investment, via initial rent-free periods or stepped rent increases in the first three years. As such, they will generate an estimated £187,000 of new income in 2015/16 (exact sum dependent on the legal completion dates) increasing to £481,000 from 2018/19 onwards.

- Tenant Service Charges – a decrease of £88,000 reflects the actual costs of services chargeable to tenants.
- Leasehold Service Charges – an increase of £230,000 reflecting the cost of works rechargeable to leaseholders. Part of this increase relates to inflation payable to contractors and part of this is due to an increase in maintenance work.
- Heating and Hot Water Charges – income is forecast to be £133,000 lower than was assumed when the budget was set. This is partly due to lower gas prices being achieved but also variations in consumption levels. There will always be a variation between costs and income as expenditure relates to the cost of procuring energy in year whilst charges to tenants and leaseholders are based on consumption levels averaged over the previous 3 years.

### **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 resulting from development and regeneration work;
  - 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 It is anticipated, that over the medium term, significant surpluses will arise on the HRA revenue account. These surpluses could be used to fund additional capital expenditure or to refinance capital debt as PWLB loans fall out or General Fund cash reserves become unavailable. Taking out fixed term loans, e.g. for 10 years, therefore seems inappropriate when access to short term funding from the Council's General Fund is available.
- 2.3 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.
- 2.4 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.
- 2.5 The exception to this is the funding of the Self Financing settlement payment (£24.960 million). The Council has 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.

- 2.6 In 2015/16, the overall debt to be financed is £210.164 million. Of this, £145.836 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.
- 2.7 Based on the methodology outlined above, the average interest rate chargeable to the HRA on actual external debt is estimated to be 6.7% and on internally funded debt (except that financing the Self – Financing settlement) a rate of 1.9% is currently forecast.
- 2.8 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 £2.673 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 2015/16 budget includes a further contribution towards the HRA Capital Programme in 2015/16. An overall revenue contribution of £21.334 million has been assumed in the 2015/16 budget, this includes the depreciation provision set out above. This is a higher contribution than in recent years, the planned uses of this additional capital budget 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 2015/16:

	<b>2014/15 Original Budget £'000</b>	<b>2014/15 Revised Budget £'000</b>	<b>2015/16 Proposed Budget £'000</b>
Expenditure	17,201	17,032	16,165
Income	-274	-279	-254
<b>Net Council Managed Budget</b>	<b>16,927</b>	<b>16,753</b>	<b>15,911</b>

## Revised Budget 2014/15

- 5.1 In terms of the current year, the revised budget indicates a decrease of £174,000 which is primarily due to:

- Capital Charges – a increase of £43,000 in the cost of debt charges (interest costs on borrowing to fund the outstanding debt), is due to a increase in the interest rate used to calculate the debt charges from that used in the original budget.
- Audit fees are projected to be £32,000 less than assumed in the original budget as actual costs have decreased with the removal of the HRA subsidy audits.
- No provision for a Miscellaneous budget has been included in the revised budget.
- An underspend of £100,000 is projected against the Stock Options/Regeneration budget as expenditure previously assumed to be funded from this budget is now being charged against capital schemes.

## Budget 2015/16

- 6.1 The proposed Council managed budgets for 2015/16 indicates a decrease of £1.016 million. The main factors are:

- Capital Charges – a decrease of £557,000 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. This

reflects the refinancing of capital debt as PWLB loans fall out and use is made of General Fund cash reserves at a rate of 1.9%.

- Depreciation – the £273,000 reduction in dwellings depreciation is mostly due to the reduction of the Council's dwelling stock from Right to Buys in previous years
- Charges made by the Corporate Services business group – a decrease of £12,000. This is mainly due to reductions in the public liability insurance premium.
- Charges made by Housing Services - an increase of £167,000. This is mainly due to the creation of a new Residents Liaison and Decanting Officer and also a Housing Regeneration Project Manager being charged here rather than the Stock Options/Regeneration budget (see below).
- Audit fees projected to be £32,000 less than assumed in the original budget as actual costs have decreased with the removal of the HRA subsidy audits.
- No provision for a Miscellaneous budget has been included in the 2015/16 budget.
- No provision for a Stock Options/Regeneration budget has been included in the revenue budget as most expenditure previously assumed to be funded from this budget is being charged against capital schemes.
- Income from interest on balances – a decrease of £20,000. This is mainly due to a decrease in the working balance.

## APPENDIX 5

### HRA WORKING BALANCE AND RESERVES

#### Working Balance

- 1.1 As at 1 April 2014, the working balance was £18.942 million. As a result of the projected net contribution to the working balance of £592,000 (see table in paragraph 2.4), the forecast for the working balance as at 31 March 2015 is £19.534 million. The proposed budgets for 2015/16 (see table in paragraph 2.4) would result in a drawdown from the working balance of £7.272 million resulting in a projected working balance at the end of 2015/16 of £12.262 million.
- 1.2 The projected movements in the working balance up to March 2016 can therefore be summarised as follows:

HRA Working Balance		
		£'000
	Opening balance (1 April 2014)	18,942
<i>add</i>	Projected outturn variance 2014/2015	592
<i>equals</i>	Projected Working Balance (31 March 2015)	19,534
<i>Less</i>	Budgeted drawdown from Working Balance 2015/2016	-7,272
<i>equals</i>	Projected Working Balance (31 March 2016)	12,262

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

## Reserves

- 2.1 The draft budgets also incorporate changes in the budgeted level of HRA reserves during 2015/16. The planned reductions are as follows:

Heading	1 April 2014 (Actual) £'000	31 March 2015 (Forecast) £'000	31 March 2016 (Forecast) £'000
<b>TMO Managed Reserves</b>			
Controlled Repairs/Area Revenue Works Reserve	263	263	263
<b>Lancaster West</b>	92	0	0
<b>Total</b>	355	263	263

## Major Repairs Reserve

- 2.2 The TMO is currently undertaking the procurement of a framework agreement which would cover the major works redecoration programmes for a 4 year period. This process is subject to an application at the Upper Tribunal and a decision is not anticipated until July/August 2015. The TMO will not plan to undertake works rechargeable to lessees until the Tribunal makes its decision. We can expect to see a significant increase in income from lessees from 2016 onwards.
- 2.3 A recent court case has also impacted on the timing of invoicing leaseholders for major works. This in turn has delayed income being received in 2014/15.
- 2.4 The following table summarises the projected position on the Major Repairs Reserve:

Major repairs reserves (MRR)	Original Budget 2014-15 £'000	Revised Budget 2014-15 £'000	Estimate 2015-16 £'000
Brought Forward	-586	-363	0
HRA Depreciation transfer to MRR	-2,946	-2,946	-2,673
HRA transfer to MRR	-6,468	-7,945	-18,661
Capital expenditure funded by MRR	10,000	11,254	21,334
Carried Forward	0	0	0

## APPENDIX 6

### HOUSING REVENUE ACCOUNT BUSINESS PLAN - 2014/15 to 2019/20

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
<b>Balance at 1<sup>st</sup> April 2014</b>			<b>-18,942</b>
Income received in 2014/15	-56,233		
Expenditure in 2014/15	55,641		
Surplus arising in 2014/15		-592	
<b>Balance at 31<sup>st</sup> March 2015</b>			<b>-19,534</b>
Income received in 2015/16	-58,519		
Expenditure in 2015/16	65,791		
Deficit arising in 2015/16		7,272	
<b>Balance at 31<sup>st</sup> March 2016</b>			<b>-12,262</b>
Income received in 2016/17	-60,538		
Expenditure in 2016/17	56,945		
Surplus arising in 2016/17		-3,593	
<b>Balance at 31<sup>st</sup> March 2017</b>			<b>-15,855</b>
Income received in 2017/18	-62,572		
Expenditure in 2017/18	61,085		
Surplus arising in 2017/18		-1,487	
<b>Balance at 31<sup>st</sup> March 2018</b>			<b>-17,342</b>
Income received in 2018/19	-64,569		
Expenditure in 2018/19	56,121		
Surplus arising in 2018/19		-8,448	
<b>Balance at 31<sup>st</sup> March 2019</b>			<b>-25,790</b>
Income received in 2019/20	-65,852		
Expenditure in 2019/20	56,503		
Surplus arising in 2019/20		-9,349	
<b>Balance at 31<sup>st</sup> March 2020</b>			<b>-35,139</b>

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 2.4 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;
- Dwelling rents are set in accordance with the policy set out in section 3 of the covering report, assuming CPI to be 1.2% each year from 2016/17;
- Inflation assumptions over the period are as follows: an annual increase of 2% on the TMO Management Fee from 2016/17 and an annual increase of 2.3% on other expenditure budgets and
- Over the 5 years 2015/16 to 2019/20, revenue contributions of £64 million are assumed to be made to the Main Capital Programme. This can be broken down over the 5 years as follows (figures rounded to nearest £ million):

2015/16	£14m
2016/17	£14m
2017/18	£16m
2018/19	£10m *
2019/20	£10m *

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

- Additional revenue contributions totalling £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 £3.051 million to £32.088 million.
- A 1% increase in the inflation level assumed each year in the calculation of dwelling rents would increase the surplus by £4.629 million to £39.768 million.
- A 1% increase in the cost of expenditure (excluding debt financing charges) met by the HRA would reduce the surplus by £1.375 million to £33.764 million.
- The combined effect of the above 3 scenarios would increase the surplus by £203,000 to £35.342 million.

## Appendix 7

### CHARGES FOR PARKING PERMITS

Charges for Tenants and Leaseholders (TLSC) from 1 April 2015

<b>Facility</b>	<b>Current Standard Charge per week – Tenants and Leaseholders (TLSC)</b>	<b>Proposed Standard Charge per week – Tenants and Leaseholders (TLSC) from 1 April 2015</b>
Self-Contained Garage – North (excluding Lancaster West)	£12.17	12.74
Self-Contained Garage – South	£23.92	25.03
Self-Contained Garage - Lancaster West	£20.76	21.73
Self-Contained Garage – Norwood Green, Southall	£6.38	6.68
External Hardstand – North (inc. Lancaster West)	£4.86	5.09
External Hardstand – South	£6.26	6.55
Indoor Car Park Bay – Elm Park Gardens	£24.26	25.39
Indoor Car Park Bay – Walnut Tree House	£13.07	13.68
Indoor Car Park Bay – Warwick Road	£11.10	11.62
Indoor Car Park Bay – Worlds End	£15.97	16.71
Indoor Car Park Bay – Swinbrook Estate (new charge to be introduced when bays created)	£8.50	8.90
Charges to tenants and leaseholders with a disabled persons purple badge	Nil	Nil

Charges for Other Users (OUSC) from 1 April 2015

<b>Facility</b>	<b>Current Standard Charge per week – Other Users (OUSC)</b>	<b>Proposed Standard Charge per week – Other Users (OUSC) from 1 April 2015</b>
Self-Contained Garage – North (excluding Lancaster West)	£30.43	31.85
Self-Contained Garage – South	£59.80	62.59
Self-Contained Garage - Lancaster West	£51.90	54.32
Self-Contained Garage – Norwood Green, Southall	£15.95	16.69
External Hardstand – North (inc. Lancaster West)	£12.15	12.72
External Hardstand – South	£15.65	16.38
Indoor Car Park Bay – Elm Park Gardens	£60.65	63.48
Indoor Car Park Bay – Walnut Tree House	£32.67	34.19
Indoor Car Park Bay – Warwick Road	£27.75	29.04
Indoor Car Park Bay – Worlds End	£39.92	41.78
Indoor Car Park Bay – Swinbrook Estate (new charge to be introduced when bays created)	£21.25	22.24
Charges to tenants and leaseholders with a disabled persons purple badge	Nil	Nil