

Report of the Section 151 Officer and the Corporate Director Place

Council – 23 February 2017

HOUSING REVENUE ACCOUNT (HRA) REVENUE BUDGET 2017/18

Purpose:	This report proposes a Revenue Budget for 2017/18 and a rent increase for properties within the HRA.
Policy Framework:	None.
Reason for Decision:	To agree a revenue budget as indicated and a rent increase for 2017/18.
Consultation:	Cabinet Members, Finance, & Legal
Recommendations:	<p>The following budget proposals be approved:</p> <p>a) Rents to be increased in line with the Welsh Government rent setting policy as detailed in section 3.</p> <p>b) Fees, charges and allowances are approved as outlined in section 3.</p> <p>c) The revenue budget proposals as detailed in section 3.</p>
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1. Introduction

1.1 The setting of the revenue budget has to take account of the following issues and factors:-

- the requirement to achieve the Welsh Housing Quality Standard (WHQS);
- future income and expenditure trends;
- increases in rent in line with the rent policy;
- the effect on tenants of rent increases;

1.2 The proposals in this report are based on the objective of maximising the resources available for investment in the housing stock to make progress in achieving the WHQS.

2. Projected Revenue Outturn 2016/17

- 2.1 There is a forecast underspend on HRA Revenue management and maintenance budgets of £0.045m which is comprised of reductions in premises costs (£0.1m), underspends on transport costs (£0.035m), underspends on supplies & services (£0.06m) and a reduction in revenue repairs (£0.150m). These underspends are offset by an overspend in employee costs (£0.250m) due to lower than anticipated vacancies along with Pay & Grading back pay and redundancy costs for some staff along with a reduction in income (£0.05m) due to voids created by the kitchen and bathroom replacement programme.
- 2.2 The revenue contribution to the 2016/7 Capital Programme has increased by £1.8m as a result of higher than anticipated balances carried forward and a reduction in the borrowing requirement. This has been partially offset by lower borrowing costs of £0.83m. As a result the forecast for the balances carried forward has reduced to £8.5m.

3. Revenue Budget Proposals 2017/18

3.1 Overview

- 3.1.1 There is a projected surplus on the HRA next year of £22.1m. This surplus together with the planned use of reserves will contribute towards the capital programme which is planned to increase from an original programme in the current year of £55m to £59.3m next year. This increase is for further investment in WHQS and a provision has been made for the More Homes Programme.
- 3.1.2 The main changes from 2016/17 are an increase in management and maintenance costs of £390k which is mainly as a result of the 1% pay rise and an increase in employer's pension contributions of £443k. There was an increase in the contribution to the bad debt provision of £43k and a reduction in the revenue repairs budget of £104k. Capital charges increased by £213k as a result of the additional cost of borrowing to support achievement of the WHQS.
- 3.1.3 The main changes to funding/income are an increase in rent and other income of £2.75m arising from the proposed rent increases, a reduction in the use of reserves of £3.4m and a reduction in the revenue contribution to the capital programme of £1.24m.
- 3.1.4 The main changes from the 2016/17 budget are shown in the following table:-

Item	£000
Reduction in the use of reserves	3,385
Effect of 1% pay rise and increase in pension contributions	443
Increased financing charges	213
Increase in bad debt reserve contribution	43
Additional income including 5% rent increase	2,748
Reduction in revenue contribution to capital programme	1,241
Reduction in revenue repairs	104

3.2 *Rent Income*

3.2.1 The target average rent per week for Swansea provided by the Welsh Government under the rent setting policy which was introduced in April 2015 is set out in the following table. The WG figures are based on a 52 week period. However, the Council has traditionally charged rents over 50 weeks allowing two weeks during the year when rent is not collected. The equivalent 50 week average is also provided.

	Lower Band (i.e. Mid-Point - 5%)	Mid-Point	Higher Band (i.e. Mid-Point + 5%)
WG weekly figures (based on 52 weeks)	£80.96	£85.22	£89.48
50 week equivalent	£84.20	£88.63	£93.06

3.2.2 In February 2015, Council agreed to maximise the available rent income by using the full transitional increase allowable under the WG policy until such time that the upper band limit is reached. This policy on rent income directly helps fundamentally underpin our additional investment in the HRA capital programme.

3.2.3 After applying the national increase of 2.5% plus the full transitional increase, the average rent for 2017/18 will be £87.35 (based on 50 weeks). This is an average increase of £4.16 (5%) per week.

3.3 *Inflation*

Provision has been included in the budget for a 1% annual pay increase from April 2017. In addition, budgets have been amended to reflect changes in employer's contributions for pensions. Other budgets, in particular repairs and maintenance and utility costs have been based on the latest prices.

3.4 *Capital Financing Charges*

Additional Capital financing charges will arise in 2017/18 as a result of additional borrowing to finance WHQS improvements.

3.5 *Fees, Charges and Allowances*

General fees, charges and allowances are normally increased either in line with the agreed rent increase or in line with the inflation provision set out in 4.3 above. If the recommendations relating to the rent increase are approved then these rent related items will increase by 5% and other charges by 1%.

3.6 *Contributions to the Capital Programme*

The additional income enables a contribution of £22.1m to the capital programme. A further £2.4m from reserves will also be utilised in supporting the capital programme.

4. **Risks and Uncertainties**

4.1 The main risk and uncertainty for next year is the ongoing impact of welfare reform measures, such as the potential increase in number of tenants in receipt of universal credit on the level of income.

5. Reserves

- 5.1 The HRA balance at the start of this year was £15.2m and at the end of the current year it is estimated to be £8.5m. It is proposed that £2.4m is used next year to finance capital expenditure. The reserves position is detailed in Table B.

6. Equality Impact Assessments

- 6.1 Proposals for changing levels of funding in specific areas have been subject to a screening process. Service managers have considered the implications of proposed budgetary decisions and believe that the proposed budget protects the most vulnerable and will not disproportionately impact on protected groups.

7 Legal Implications

- 7.1 Tenants will need to be notified of the proposed increase in accordance with the provisions of section 102 of the Housing Act 1985. Section 102 b) states that variation of the Rent shall be carried out in accordance with the provisions of the Tenancy Agreement. Section 2.6 of the Council's Tenancy Agreement states that Tenants must be given 4 weeks notice before any Rent change.

Background Papers: None

Appendices:

Table A: Summarised HRA 2016/17 to 2017/18

Table B: Movement in Balances 2016/17 to 2017/18

Table A: Summarised HRA 2016/17 to 2017/18

Classification	Budget 2016/17	Budget 2017/18
	£'000	£'000
<u>Expenditure</u>		
Management and Maintenance	28,360	28,750
Capital Charges	9,883	10,096
Revenue Funding for capital schemes	25,700	24,459
Total Expenditure	63,943	63,305
<u>Income</u>		
Rents and other income	58,162	60,910
Use of balances	5,781	2,395
Total Income	63,943	63,305

Table B: Movement in Balances 2016/17 to 2017/18

Description	£000's
Actual balance at 1 st April 2016	15,233
Budgeted use 2016/17	-5,781
Budgeted balance 31st March 2017	9,452
Forecast use 2016/17	-6,756
Forecast balance 31st March 2017	8,477
Budgeted use 2017/18	-2,395
Forecast balance 31st March 2018	6,082