



Report of the Section 151 Officer and the Corporate Director Place

Cabinet – 15 February 2018

Housing Revenue Account (HRA) Revenue Budget 2018/19

| | |
|-------------------------------------|---|
| Purpose: | This report proposes a Revenue Budget for 2018/19 and a rent increase for properties within the HRA. |
| Policy Framework: | None. |
| Consultation: | Cabinet Members, Finance, & Legal |
| Recommendations: | <p>The following budget proposals be recommended to Council for approval:</p> <ul style="list-style-type: none">a) Rents to be increased in line with the Welsh Government rent setting policy as detailed in section 3.b) Fees, charges and allowances are approved as outlined in section 3.c) The revenue budget proposals as detailed in section 3. |
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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 2017/18

- 2.1 There is a forecast underspend on HRA Revenue management and maintenance budgets of £0.35m which is comprised of a reduction in borrowing costs (£0.25m) due to slippage on the Capital Programme. There is also an underspend on employee costs (£0.075) and supplies and services (£0.16). There are also minor underspends on transport costs (£0.015m) and premises costs (£0.05m) as a result of utilities. These underspends are offset by an overspend on revenue repair costs (£0.10m) along with a reduction in fee income (£0.10m).
- 2.2 The forecast revenue contribution to the 2017/18 Capital Programme has increased by £1.9m 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 £0.26m. As a result the forecast for the balances carried forward has reduced to £5.8m.

3. Revenue Budget Proposals 2018/19

3.1 Overview

- 3.1.1 There is a projected surplus on the HRA next year of £24.3m. This surplus together with the planned use of reserves will contribute towards the capital programme of £57.9M in 2018/19. This is for further investment in WHQS and for the More Homes Programme.
- 3.1.2 The main changes from 2017/18 are an increase in management and maintenance costs of £0.9m. This is mainly as a result of the 2% pay rise, increments and an increase in employer's pension contributions of £0.5m and an increase in the revenue repairs budget of £0.4m due to inflationary pressures on materials costs. Capital charges increased by £0.9m 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 £4.2m arising from the proposed rent increases.
- 3.1.4 The main changes from the 2017/18 budget are shown in the following table:-

| Item | £000 |
|---|-------|
| Reduction in the use of reserves | 2,298 |
| Increased financing charges | 989 |
| Effect of 2% pay rise and increase in pension contributions | 494 |
| Increase in Revenue Repairs Budget | 380 |
| Increase in Revenue Contribution to Capital | 12 |
| Other minor revenue changes | 33 |
| Additional income including 6.88% rent increase | -4206 |

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) | £85.03 | £89.50 | £93.98 |
| 50 week equivalent | £91.25 | £96.05 | £100.85 |

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 4.5% plus the full transitional increase, the average rent for 2018/19 will be £93.35 (based on 50 weeks). This is an average increase of £6.01 (6.88%) per week.

3.3 *Inflation*

Provision has been included in the budget for a 2% annual pay increase from April 2018. 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 2018/19 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 6.88% and other charges by 3%.

3.6 *Contributions to the Capital Programme*

The additional income enables a contribution of £24.5m to the capital programme. A further £97k 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 £9.8m and at the end of the current year it is estimated to be £5.8m. It is proposed that £97k 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 2017/18 to 2018/19

Table B: Movement in Balances 2017/18 to 2018/19

| Classification | Budget 2017/18 | Budget 2018/19 |
|-------------------------------------|---------------------------|---------------------------|
| | £'000 | £'000 |
| <u>Expenditure</u> | | |
| Management and Maintenance | 28,750 | 29,657 |
| Capital Charges | 10,096 | 11,085 |
| Revenue Funding for capital schemes | 24,459 | 24,471 |
| Total Expenditure | 63,305 | 65,213 |
| <u>Income</u> | | |
| Rents and other income | 60,910 | 65,116 |
| Use of balances | 2,395 | 97 |
| Total Income | 63,305 | 65,213 |
| | | |

Table B: Movement in Balances 2017/18 to 2018/19

| Description | £000's |
|--------------------|---------------|
|--------------------|---------------|

| | |
|--|--------------|
| Actual balance at 1 st April 2017 | 9,821 |
| Budgeted use 2017/18 | -2,395 |
| Budgeted balance 31st March 2018 | 7,426 |
| Forecast use 2017/18 | -4018 |
| Forecast balance 31st March 2018 | 5,803 |
| Budgeted use 2018/19 | -97 |
| Forecast balance 31st March 2019 | 5,706 |