

BARNSELY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan

**Joint Report of the Director of
Finance, Assets and
Information Services and the
Executive Director – Place**

HOUSING REVENUE ACCOUNT –DRAFT BUDGET 2016/17 & HOUSING CAPITAL INVESTMENT PROGRAMME 2016-2021

1. Purpose of report

1.1 This report provides a summary of:-

- (i) The Housing Revenue Account HRA draft budget for 2016/2017;
- (ii) 5 Year HRA Forecast;
- (iii) Use of the Working Balance; and
- (iv) The 2016/21 proposed capital investment programme

2. Recommendations

It is recommended:-

- (i) That the Housing Revenue Account Draft Budget for 2016/2017 be approved, with any final amendments / additions being delegated to the Cabinet Spokesperson for Place and the Executive Director for Place;
- (ii) That the Service Charge Proposals for 2016/2017 as set out at Appendix D & Sections 3.13 to 3.16 be approved;
- (iii) That the 2016/17 Berneslai Homes Management Fee is approved with any final amendments / additions being delegated to the Service Director, Culture, Housing and Regulation and the Executive Director Place in consultation with the Cabinet Spokesperson for Place;
- (iv) That the use of Berneslai Homes Ltd retained surplus as outlined in section 3.27 be approved; and
- (v) That the earmarking of HRA Working Balance as outlined in sections 3.8-3.12 be approved.
- (vi) The Council Housing Capital Investment programme for 2020-21 is approved.
- (vii) That a rent reduction in line with Government's rent policy be approved; and that;

- (viii) **The Board of Berneslai Homes be authorised to vary any of the approved capital schemes subject to a maximum variation on existing budgets of £250,000, with variations above this amount carried out in agreement with the Executive Director Place and the Cabinet Spokesperson for Place.**

3. Introduction

3.1 This reports sets out the proposed 2016/17 HRA draft budget and the 2016/21 Housing Capital Investment Programme. In addition at section 3.17-3.19 a five year financial forecast is shown highlighting the key pressures facing the HRA over the next five years.

3.2 On the 8th July this year the Government made a surprise announcement to reduce social housing rents by 1% per annum for the next four years from 2016/17. Rent income forecasts had been based upon the current rent increase formula of CPI plus 1%. The table below shows the five year impact of the 1% decrease in rents.

	2016/17	2017/18	2018/19	2019/20	2020/21
	£M	£M	£M	£M	£M
2015/16 HRA Business Plan	75.3	77.4	79.34	81.2	83.0
2016/17 Business Plan	71.9	70.8	69.7	68.4	69.8
Rent Loss	3.4	6.6	9.7	12.8	13.2

3.3 The 1% rent decrease leads to an average rent decrease of £0.81 for 2016/17 compared to an average rent increase of £1.74 in 2015-16.

3.4 The HRA 2016/17 budget has been prepared within the context of the new financial environment following the Chancellor's announcement.

3.5 A full review of the HRA Budget to identify potential areas of saving whilst mitigating the impact on services to customers has been undertaken. Savings on the following budgets are proposed to help offset the £3.4M loss of anticipated rent income.

- Interest Charges £0.954M – Reduction in assumed interest rate on variable debt and no requirement for additional borrowing.
- Bad Debt Provision £1.035M – Delays in the Government's roll out nationally of Universal Credit.
- Environmental Improvements - £0.320M –The cessation of this scheme will have a minimum impact on community engagement and customer satisfaction.

3.6 A summary of the draft 2016/17 budget is included at Appendix A and the main variations are included at Appendix B.

2016/17 Key Budget Assumptions

3.7 A number of assumptions have been built into the 2016-17 budget, the key areas summarised below:

- Average housing stock of 18,827 dwellings .
- Variable rate loans reduced from 2% to 1.2% for 2016/17 (current rate plus 0.5%) and no new external borrowing
- 1.5% of rent income for the bad debt provision
- 1.0% rent loss due to voids

Available HRA Working Balances

3.8 The table below summarises the HRA working balance position.

	£M
HRA Working Balance at 31 st March 2015	36.8
<u>Less Earmarked For:</u>	
i) Capital Programme Commitments	14.0
ii) Welfare Reform	3.0
iii) Impairment	2.0
iv) General Contingency/Minimum Working Balance	3.5
v) Available for Housing Growth	14.3

3.9 The 2015/16 budget report tasked Berneslai Homes with identifying HRA resources for reinvestment. Having undertaken a full review of the capital programme and earmarked balances £14.3M has been identified to support the Council's objective for housing growth.

3.10 The Welfare reform earmarking will be reviewed annually and released in 2018/19 subject to the full roll out of Universal Credit.

3.11 Revised statutory determinations are anticipated in relation to the accounting treatment of impairment. The earmarkings for impairment will be reviewed in the light of the revised determinations and released in 2017/18 if no longer required.

3.12 The general contingency is set at 5% of the rent income budget, this is the minimum working balance.

Service Charge Increases/Decreases

- 3.13 It is proposed that the communal facilities charge for those in housing for older people schemes should reduce from £7.81 per week to £6.85 over 48 weeks in line with projected actual costs of the services provided.
- 3.14 Following a review in summer of the District Heating Charges it was agreed that the charge would decrease from the 2014/15 charge of 11p to 10p from the 1st of October 2015. It was later agreed in October with the Council to reduce the charge by a further 0.5p to 9.5p effective from the 1st November and to remain at this level until March 2017. In addition unmetered water charges at three sites currently charged at £2.50 per week would rise to £5.00 per week over a two year period in order to recover actual costs (£3.75 -16/17, £5.00- 17/18).
- 3.15 It is proposed that water charges in those schemes where tenants do not pay Yorkshire Water direct should increase in line with the actual costs of water consumed. The revised weekly charges based upon pooling the costs over all relevant schemes are shown in Appendix D.
- 3.16 There are 24 New Build properties with shared facilities for which service charges are levied. It is proposed to levy the weekly charges in line with estimated actual costs, the individual scheme costs are shown in Appendix D.

HRA Five Year Forecast

- 3.17 Following the revised Government rent policy it is no longer possible to repay debt within 30 years. Further savings in addition to those identified in the 2016/17 budget as at section 3.5 are required over the next five years as shown in the table below.

	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M
Savings Required	Achieved	0 *	0.305 *	3.112 *	2.455 *

- 3.18 *A decision is still to be made on the future debt repayment policy. Debt repayment of £1.8M is included within the forecasts in 2017/18 with no debt repayment thereafter. Any further debt repayment will require an increase to the savings shown above.
- 3.19 In addition the forecasts do not include the impact of the following two recent Government proposals as the details and financial implications are still unclear:
- The sale of high value Council Houses- Councils may be required to sell each year a proportion of their high value void properties. However it is clearer that we will have to pay an annual sum to Government.

- 'Pay to Stay' scheme - Social tenants with household earnings above £30,000 per year will be required to pay a market rent rather than a social rent, the increased rent amount will have to be returned to government.

2016/21 Council Housing Investment Programme

- 3.20 Cabinet previously approved a five year Council Housing Capital Investment Programme 2015-20 (Cab.14.1.2015/7.5). Moving forward a year this report sets out the proposed investment programme for 2020/21 and new schemes identified since the original five year programme was approved.
- 3.21 The proposed 2016-21 Council Housing Investment Programme totals £133.302M. The aim of the core investment programme is to maintain the council housing stock in Barnsley at the decency standards set by the Barnsley Homes Standard. However it has also been possible to identify resources for added value schemes including new build and acquisitions. Appendix C details the five year programme and the resources available for investment.
- 3.22 The 2016-21 Barnsley Homes Standard (BHS) budget is kept at a level to keep properties from falling into non decency. This programme targets those properties where, through the passage of time, elements such as kitchens; bathrooms; heating systems; windows and external doors are worn out and need replacing.
- 3.23 A review of the non Barnsley Homes standard budgets (replacement items, major adaptation, structural extensive works) in line with annual outturns has allowed for a £1.3M budget reduction per year. This is being used to offset savings requirements in the HRA in future years.
- 3.24 Savings totalling £14.3M have been identified within the current capital programme (£9.3M) and from a review of the HRA working balances (£5M). Of the capital programme savings £5.4M savings is from completed Decent Homes/ BHS schemes reaching final account stage allowing unutilised monies to be released and from spare BHS monies that have not been required when annual schemes have been approved. £3.3M is across the non BHS scheme budgets (replacement items, Major Adaptations, Structural Extensive). These budgets have been reviewed in line with previous year outturns allowing savings to be released.
- 3.25 It is proposed to reinvest the £14.3M savings in new capital schemes. A further report will be submitted outlining the approach and principles to investing this sum to support the Council's strategic housing needs with further reports on detailed projects being submitted subsequently.

Management Fee

3.26 The proposed Berneslai Homes Management Fee for 2016/17 is detailed below.

	£	£
Original Management Fee 2015/16		13,946,480
<u>Approved Variations</u>		
Full Year Effect of 2015/16 Developments	<u>100,000</u>	100,000
<u>Base Variations</u>		
Salaries (1% pay award), Increments and Pension Increase	124,570	
NI Contribution Increase	156,390	
Utility Decreases	-44,290	
Other	<u>-37,060</u>	199,610
<u>Savings Proposals</u>		
Community Refurbishment Scheme – Scheme 2	-300,000	-300,000
Updated Management Fee		13,946,090

3.27 It is proposed to use Berneslai Homes Retained Reserves to fund two time limited development proposals as follows:

- IT Support for Modernisation of Services - £40,000 (per annum for 3 years)
- Mental Health Support Contract to support tenants with mental health and alcohol/drug issues - £60,000

3.28 Previously approved priorities for investing the Company's retained surplus also include the following:-

- Service impacts of Welfare Reform,
- £4M for the Acquisition Programme to increase the supply of affordable housing in the borough and support the Council's empty homes strategy.
- Financial risk, including risks around the PRIP arrangement,
- Further modernisation of the service which may be around looking at digital inclusion, e-access and aligning to the Council's Customer Services Organisation Project,
- Support to the 2015/16 Berneslai Homes budget (time limited Development Proposals),

Approval for any investment proposals funded from the surplus will be in consultation with, and the agreement of the Service Director, Culture, Housing and Regulation.

4. Consideration of alternative approaches

- 4.1 The package of budget proposals set out in the HRA Budget and Housing Capital Investment Programme report include the reinvestment of savings on the capital programme of £14.3M. An alternative approach would be to utilise resources to repay debt. Repaying debt would reduce the risk to the business plan of future increases in interest charges. However, reinvestment in the areas proposed will support the Council's corporate objectives and also through the new build and acquisition programmes produce income generating assets which contribute to the plan in future years.

5. Proposal and justification

- 5.1 It is proposed that individual dwelling rents be decreased in line with the Government's rent policy and that consideration be given to the Savings proposals in section 3.5. In addition it is proposed that the use of Berneslai Homes Ltd retained surplus as set out in sections 3.28 be approved and that the HRA earmarked working balances as set out in sections 3.8 – 3.12 be approved. It is proposed that the 2016-21 capital programme (Appendix C) is approved. The programme is affordable over the five year period and consistent with the Council's approved Housing Strategy.

6. Implications for local people / service users

- 6.1 The effective management of the HRA helps to consistently drive forward service improvements for the benefit of both council tenants and the wider community.
- 6.2 The capital programme is designed to meet decency standards and has aspects within it to help reduce fuel poverty and to maximise opportunities to invest in affordable warmth initiatives. The major adaptations budget will also support the continued independence of vulnerable people.

7. Financial implications

- 7.1 In total these proposals will maintain the minimum working balance at the required level of £3.5M.
- 7.2 The total cost of the 2016/21 capital programme is £133.302M and is affordable over this five year period.

8. Employee implications

- 8.1 Any employee implications will be addressed as detailed scheme proposals are developed and approved.

9. Communications implications

- 9.1 A joint press release will be issued. Berneslai Homes will continue to communicate directly with those tenants who will be directly affected by the proposed capital works in a timely manner.

10. Consultations

- 10.1 Discussions have taken place with the Director –Finance, Property & Information Services and the Executive Director – Place.
- 10.2 Tenants have been consulted on additional investment priorities.
- 10.3 Consultations with local members on the Barnsley Homes Standard and on any other major capital schemes in their area will continue to take place.
- 10.4 Consultations on the Council Housing Capital Investment Programme have and will continue to take place with Planning and Highways, NPS, Legal Services and Internal Audit where appropriate.

11. Risk management issues

- 11.1 In preparing the draft budget for 2016/17 a number of risks have been identified which will require attention during the financial year. Risks have been identified where they would have a significant impact on the ability of the Council and Berneslai Homes to achieve the stated objectives and to ensure a balanced budget at the year-end.

(1) Welfare Reform

- 11.2 Rent collection rates in the first 6 months of 2015/16 remain strong at 98.50% compared to 98.13% for the same period in 2014/15. This is due partly to the excellent efforts in the rent collection team and due to delays in the roll out in Universal Credit.
- 11.3 Welfare Reform continues to be a major risk to the 30 year Business Plan, particularly the roll out of Universal Credit (UC) which will see many working age claimants receive their rent included as part of their monthly benefit rather than paid directly to the landlord in the form of Housing Benefit. The rollout of UC has been delayed and in the first six months of 2015/16 we know of only 33 of our tenants who are in receipt of UC. However, of these 54% have arrears exceeding £300 and in total £17,500 is owed by the 33 tenants. There is a specific provision in the HRA working balance of £3M to mitigate against this risk.

- 11.4 The annual provision for Bad Debts within the Business Plan has been reviewed in light of the delays in the roll out of Universal Credit. The budget has been set at 1.5% of rental income in 2016/17 rising to 3% in 2017/18 to 2019/20 reducing to 2% thereafter. This reflects the potential roll out of Universal Credit and a return to more normal levels after.

(2) Treasury Management

- 11.5 With the introduction of self financing the HRA exposure to treasury management risk has significantly increased as the protection from increased interest rates provided by the previous Housing subsidy system has ceased. The Council's approach to managing treasury management risk is set out in the Treasury Management Strategy agreed annually as part of the budget process. The types of risk which are most relevant to the HRA are interest rate risk and refinancing risk.
- 11.6 In the 2016/17 budget variable rate loans previously included at 2% have been reduced to 1.2% rising to 2% in 2018/19 and 2.5% for later years. This does increase the interest rate risk and will need to be monitored closely.

(3) Right to Buy

- 11.7 The level of sales through the 'Right to Buy' is greater following Government changes which have made the scheme more attractive through increases to the amount of discount which tenants receive. The actual sales for 2014/15 were 109 compared to 40 sales in 2011/12. The estimate for 2015/16 is 120 and 2016/17 is 125. The first call against the receipt from each **additional** sale is to meet the debt for that property taken on under the self financing regime. Yet increased sales through 'Right to Buy' still places a burden on the 30 year plan due to the loss of economies of scale, difficulties in downsizing to match new lower income levels and potential restructuring costs. Maintaining stock levels by taking advantage of acquisition and new build opportunities will mitigate against this risk.

12. Glossary

CIPFA – Chartered Institute of Public Finance and Accountancy

CLG – Department for Communities and Local Government

Delivery Plan - This document sets out Berneslai Homes' priorities, planned outputs and targets for the coming year and is agreed with the Council.

HRA – Housing Revenue Account

Working Balance - The accumulated surplus (excess of income over expenditure) on the Housing Revenue Account

Earmarked Working Balance - Working Balance which is set aside to meet planned future expenditure

Unallocated Working Balance - Working balance which is not set aside and is potentially available to fund priority additional expenditure items

PRIP - Property Repairs and Improvement Partnership

MRR - Depreciation Charges to the HRA are transferred to the Major Repairs Reserve pending their use to fund capital schemes

RSL - Registered Social Landlord, for example a housing association

Impairment Charges -. these are made to reflect reductions in the value of assets due to changes in the physical condition of the property over and above normal wear and tear and reductions due to changes in market conditions. These charges can first be made against the revaluation reserve of the asset (if one exists). Charges in excess of the revaluation reserve have to be made to the income and expenditure statement.

13. List of appendices

Appendix A - Housing Revenue Account Draft Budget 2016/17

Appendix B - Major Variations

Appendix C - Housing Capital Investment Programme 2016-21

Appendix D –Proposed 2016-17 Service Charge Increases

14. Background papers

14.1 CLG Consultation Rents for Social Housing from 2015-16 October 2013
(Available for inspection at Gateway Plaza, Off Sackville Street)

14.2 Housing and Planning Bill 2015/16

14.2 Budget working papers containing exempt information - not available for inspection.

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Housing Revenue Account - Draft Budget 2016/17

	2015/16		2016/17
	Original £	Revised £	Draft £
<u>INCOME</u>			
1 Dwellings Rent	72,288,640	72,388,640	71,104,130
2 Non Dwellings Rents	372,230	391,480	391,480
3 Heating Charges	742,710	674,860	644,180
4 Other Charges for Services and Facilities	503,890	789,770	788,670
5 Contributions towards Expenditure	601,060	870,840	517,920
	74,508,530	75,115,590	73,446,380
<u>EXPENDITURE</u>			
6 Repairs and Maintenance (including fees)	18,537,300	18,517,300	18,058,620
7 Supervision, Management & Special Services	16,292,730	14,746,634	16,677,430
8 Rents, Rates, Taxes and Other Charges	219,800	172,060	171,800
9 Increased Provision for Doubtful Debts	2,102,520	902,520	1,066,560
10 Depreciation & Impairment of Fixed Assets	13,027,970	13,027,970	13,027,970
11 Debt Management Costs	93,640	94,580	94,580
	50,273,960	47,461,064	49,096,960
12 Net Cost of Services	-24,234,570	-27,654,526	-24,349,420
13 Interest Payable and similar charges	12,632,860	11,632,860	11,678,770
14 Amortised Premiums and Discounts	77,570	77,570	77,570
15 Investment Income	-117,970	-117,970	-134,560
16 Net Operating Expenditure	-11,642,110	-16,062,066	-12,727,640
Appropriations			
17 Transfer to/from Major Repairs Reserve	7,656,170	7,656,170	8,272,170
18 Revenue Contribution to Capital	27,543,190	6,864,105	14,185,180
19 Debt Repayment	0	0	2,304,980
20 Base Budget	23,557,250	-1,541,791	12,034,690
21 Use of (-) / Contribution to Working Balance	-23,557,250	1,541,791	-12,034,690
22 Surplus (-) / Deficit to be Financed	0	0	0

Housing Revenue Account - Draft Budget 2016/17

ITEM	£	£
1 2015/16 BUDGET		23,557,250
2 ADD VARIATIONS		
3 Repairs & Maintenance - 15-16 One year only Development Proposal and 1% repairs inflation	-234,780	
4 Council Tax on Unoccupied Properties change in Council policy on charging	-50,000	
5 Reduction in Bad Debt Provision due to delays in the roll out of Universal Credit	-1,035,960	
6 1% Rent Decrease	1,184,510	
7 Reduction in Revenue Contribution to Capital	-13,358,010	
8 Repayment of Debt	2,304,980	
9 Additional Contribution to the Community Safety Team	240,000	
10 Increased Back funding pension costs	188,000	
11 Ceasing the Environmental Improvements Budget from 2016/17	-320,000	
12 Not Implementing Community Refurbishment Scheme - Phase 2	-300,000	
13 Reduction in interest charges due to lower interest rates and debt	-954,090	
14 Increase in Transfer to Major Repairs Reserve re Depreciation in line with the Self Financing Settlement	616,000	
15 Approved reduction in Heating Charges	98,530	
16 Increase in Renewable Heat Incentive Income	-170,000	
17 Other Variations	268,260	
18 TOTAL VARIATIONS		-11,522,560
19 2016/17 DRAFT BASE BUDGET		12,034,690

Housing Capital Investment Programme 2016-21

	2016/17	2017/18	2018/19	2019/20	2020/21	TOTAL
	£M	£M	£M	£M	£M	£M
Expenditure:						
Core Programme:						
Barnsley Homes Standard	15.517	14.592	14.924	15.264	14.176	74.473
Heating Works	2.499	1.018	1.044	1.070	1.096	6.727
Replacement Items	2.000	1.800	1.868	1.939	1.987	9.594
Major Adaptations	1.900	1.900	1.952	2.007	2.097	9.856
Structural Extensive Works	1.385	1.214	1.192	1.226	1.325	6.342
Other	1.289	0.307	0.373	0.382	0.392	2.743
Added Value Investment:						
Additional Housing Growth	8.000	4.000	2.344	0.000	0.000	14.344
New Build	2.100	2.500	1.500	0.000	0.000	6.100
Acquisitions	2.000	1.123	0.000	0.000	0.000	3.123
Total Expenditure	36.690	28.454	25.197	21.888	21.073	133.302
Resources:						
Major Repairs Reserve	21.346	18.845	19.354	19.877	20.372	99.794
Capital Receipts	1.159	0.676	0.690	0.701	0.701	3.927
Revenue Contribution to Capital	14.185	8.933	5.153	1.310	0.000	29.581
Total Resources	36.690	28.454	25.197	21.888	21.073	133.302

Proposed 2016/17 Scheme Water Charges

Property	Current Charge £	Proposed Charge £
Bedsit	2.89	3.14
1 Bed	3.55	3.87
2 Bed	4.22	4.59
3 Bed	5.00	5.44

Proposed 2016/17 New Build Service Charges

Location	Current Charge £	Proposed Charge £
Vernon Crescent	3.77	2.63
Lidgett Close	3.30	5.47
Halifax Street	5.06	7.99