Finance and Resources Committee

10.00am, Thursday, 8 February 2018

Housing Revenue Account Budget Strategy 2018 – 2023

Item number	5.6
Report number	
Executive/routine	Executive
Wards	All
Council Commitments	1, 10, 41, and 44

Executive Summary

Following consultation with tenants, this report sets out the Housing Revenue Account (HRA) budget for 2018/19 and recommends that the report is referred to the Council budget meeting for approval on 22 February 2018.

The report sets out the long-term investment priorities underpinning the Council's strategy to reduce the cost of living for tenants and to provide good quality, well managed, affordable and low-cost housing for people on low to middle incomes. These priorities are:

- expand and accelerate the development of affordable and low-cost housing;
- continue to modernise existing Council homes and neighbourhoods; and
- transformation of front line services to tenants to tackle inequality and reduce their cost of living.

The report sets out the financial strategy to deliver over £700 million capital investment to support these priorities between 2018/19 and 2022/23.

Each year tenants' views are sought on the budget strategy. There continues to be strong support from tenants for the approach outlined in this report with four out of five tenants indicating support for the plan.

Report

Housing Revenue Account Budget Strategy 2018 - 2023

1. Recommendations

1.1 It is recommended that Finance and Resources Committee:

1.1.1 Agrees to refer the 2018/19 budget, draft five-year capital investment programme, and the rent levels for 2018/19 set out in Appendices 4 and 6 to the Council budget meeting for approval.

1.1.2 Notes the progress being made on delivery of Council commitments to tenants, particularly in the delivery of new affordable and low-cost homes.

2. Background

2.1 The Housing Revenue Account (HRA) sets out the income and expenditure for the Council's Housing Service. The Housing Service provides affordable homes and other services to around 19,000 tenants and 500 homeowners in the city. It is the sixth largest landlord in Scotland.

2.2 The Housing Service is entirely self-financing and receives no funding from the general Council budget. The views of customers, tenants, owners and prospective tenants form an integral part of the development of the Housing Service strategy and HRA budget.

2.3 The HRA budget is approved by Council each year following consultation with tenants. The budget is prepared following reviews of the 30 year HRA business plan, the ten-year investment strategy and the five-year capital investment programme. Officers are advised by a working group of the Tenant Panel and the Rent Matters Working Group. Appendix 1 sets out the annual business plan review and budget development process. Appendix 2 sets out the key assumptions underpinning the business plan.

2.4 On 9 February 2017, Council approved the 2017/18 Housing Revenue Account revenue budget and five-year capital investment programme. The budget set out plans to build more affordable homes, improve tenants' homes and help tenants reduce their cost of living.

2.5 On 24 August 2017, Council approved its five-year business plan. The plan sets out an objective to build 20,000 new affordable homes in the city over the next 10 years.

2.6 On 7 September 2017, Housing and Economy Committee considered a report on the HRA budget strategy and agreed to seek tenants' views on the HRA budget plan for 2018/19.

2.7 On 2 November 2017 Housing and Economy Committee approved the Strategic Housing Investment Plan (SHIP). The SHIP sets out how the Council and housing associations plan to deliver affordable and low-cost homes over the next five years.

3. Main report

Customer Strategy

3.1 This report sets out how the strategy underpinning the HRA Budget and the Council's Housing Service reflect customer priorities.

3.2 While homelessness in the city has declined significantly in the last few years, demand for Council and housing association homes is consistently high with over 160 households bidding for every social rented home available to let and around 1,900 households have registered their interests in the Council's MMR homes at any one time.

3.3 Current Council and housing association tenants face significant hardship and are particularly affected by low paid and insecure employment, disrupted benefits and rising living costs. Consultation feedback from tenants shows significant concerns about their ability to pay for food, energy, bills and clothing.

3.4 Over half of tenants have identified health needs, with many having secured a home after lengthy, and sometimes recurring periods, of homelessness and disruption in their lives.

3.5 The revised HRA Business Plan sets out three priorities to respond to these challenges:

3.5.1 expand and accelerate the development of affordable and low-cost housing;

3.5.2 continue to modernise existing Council homes and neighbourhoods; and

3.5.3 transform front line services to tenants to tackle inequality and reduce their cost of living.

New Homes

3.6 There are currently over 2,000 Council and housing association homes under construction on 32 sites across the city. The Council's house building programme continues to expand, with around 1,600 homes completed or under construction this year. A further 3,000 homes are in design development stage. Appendix 3 sets out the sites currently under construction.

3.7 The business plan sets out a ten-year investment strategy to deliver of up to 10,000 new affordable and low-cost homes. Discussions are ongoing with housing association partners to match the Council's expanded housebuilding programme bringing the total ten-year programme to 20,000 homes.

3.8 All new build homes are built to an accessible standard but in recognition of the pressures facing health and social care services, the Council and partner housing associations have committed to working in partnership with NHS Lothian through the Integrated Joint Board for Health and Social Care to deliver 3,000 affordable and low-cost homes specifically for older people and people with complex health needs.

3.9 The retention of public sector land and acquisition of other sites, to meet public policy objectives, including affordable housing, is a key element of the strategy. Discussions are ongoing with public sector partners and through the Edinburgh Partnership to explore a more strategic approach to the use of publicly owned land in the city.

Better homes and neighbourhoods

3.10 Over the last five years almost half of all Council homes have benefited from the installation of new heating systems, insulation or other energy efficiency measures. In addition, over 8,000 tenants have had their heating systems modernised over the last five years. The business plan assumes that a further 6,500 tenants will benefit from new modern, efficient heating systems in the next five years.

3.11 By 2020 all homes will have benefited from internal modernisation programmes. The commitment to replace all kitchens and bathrooms over 20 years old by 2020 is on track to be delivered in 2019, a year ahead of schedule.

3.12 Around 4,500 Council homes have been adapted over the past five years to enable older people and people with disabilities to remain at home. The HRA adaptations budget is set each year based on trends from previous years, but is flexible to respond to demand.

3.13 The creation of mixed tenure neighbourhoods in the 1980s and 1990s, arising from the right to buy and a lack of adequate property management arrangements when properties were sold, has led to the visible deterioration of some buildings and estates.

3.14 Considering the scale of the housebuilding programme, there is a risk that investment in existing property and neighbourhoods is neglected. If not addressed this could lead to areas where new good quality homes are located alongside poorer quality homes and over time this could result in a requirement for further demolition. A key objective of the strategy is to ensure that all existing Council homes and estates are of the same standard and quality as new homes.

3.15 To address this risk the business plan assumes investment of around £20,000 per home over the next 15 years to ensure all existing homes are modernised and necessary improvements are made to the external fabric of buildings and estates. In the consultation tenants expressed support for this approach identifying maintenance, safety and security of common areas and investment in new facilities for young people as examples of the type of improvement they desire.

Service improvement and transformation

3.16 Recognising the financial hardship facing its customers the Housing Service has started a process of changing the way it works with tenants and the communities in which they live. These changes currently include:

3.16.1 **Patch based working:** Replacement of specialist teams with patch teams with generic housing officers working with an average of 200 tenants each;

3.16.2 **Integrated locality teams:** Co-location of property and housing management teams in localities;

3.16.3 **Good neighbour campaigns**: Establish an annual campaign to recognise and reward tenants and residents who support their neighbours and look after their communities;

3.16.4 **Low cost energy**: Partner with Our Power, a not-for-profit member owned energy company to provide low cost energy;

3.16.5 **Energy advisers:** Co-location of tenant energy advisers with locality teams; and

3.16.6 **Employment opportunities for tenants:** Expansion of modern apprenticeships in the Housing Service and targeted support for tenants and their families to find secure and long term employment.

3.17 In 2018/19 a further phase of service change will be taken forward. These changes will include:

3.17.1 **Tenant discount card:** Expansion of the tenant discount card scheme to include more outlets and promotion to tenants.

3.17.2 **Online repairs reporting:** One of the first major housing providers to introduce online repairs reporting. Phase one of this project operational in 2018.

3.17.3 **Flexible and accessible payment options for rent:** Development of new and more secure methods of rent payment.

3.17.4 **Broadband and digital access pilot for tenants:** Free digital access and digital skills development for tenants.

3.17.5 **Expansion of food growing and community gardens.**

Funding the strategy

3.18 The HRA Business Plan sets out planned investment of £709 million over the next five years. This investment is funded from capital receipts, prudential borrowing, capital funded from revenue and Scottish Government subsidy for new social rented homes. Over 10 years, planned investment rises to £1.750 billion in new affordable homes, improvements to existing homes and estates and service improvement. Appendix 4 sets out the draft five and ten-year capital investment programme.

3.19 Projections for income and expenditure over the 30 year business plan period are set out in Appendix 5. Maximising investment in current and new homes and delivering new services, means income and expenditure is more closely aligned. This is most visible in years eight to 11. Approximately £9 million is required from the Strategic Housing Investment Fund, built up from the surpluses in years one to seven, to ensure the HRA does not go into deficit in these years.

3.20 The business plan assumes that rent arrears will increase as a result of financial pressures on tenants. The plan estimates a loss of £9 million income to mitigate the impact of welfare reform on tenants. A ring-fenced contingency has been established to mitigate the impact of further decreases in income and/or unexpected increases in expenditure. The contingency reserve is set at £3 million in year one rising to 10% of annual income by year 10.

3.21 The business plan assumes a 2% annual increase in rents. This increase is below current inflation projections of between 3%-4%. The rent strategy seeks to strike the right balance between keeping rents affordable for tenants, ensuring homes are affordable to manage and building more affordable homes.

3.22 Around 80% of tenants receive some help with their rents through Housing Benefit and the housing element of Universal Credit. For most of those not receiving help, the proposed rent increase would mean an average increase of between £1.66 for a one bedroom flat and £2.43 for a four-bedroomed house in 2018/19. Any increase in rent should be offset by a reduction in the cost of living through investment in new services and investment in existing homes, for example, reducing energy costs.

3.23 Support is available to tenants who face difficulty paying rent. No tenant will be evicted as long as they engage with the Housing Service and develop realistic plans to manage arrears and late payments of rent.

3.24 The 2017 tenants survey reported that 86% of tenants who did not receive help with rent had no difficulty paying their rent. Previous consultation with tenants shows that four out of five tenants support the plan for a 2% rent increase to support the investment plan. Nearly one third of tenants were willing to pay more if improvement plans could be accelerated.

3.25 For the third year running the business plan assumes no increase in fees and charges to tenants. These include charges for stair cleaning, furnishing and heating. Not all of these charges are covered by housing benefit. Freezing these costs has a direct benefit to the majority of tenants.

4. Measures of success

4.1 Development of 10,000 new Council-led affordable and low-cost homes over the next ten years, which are energy efficient and economical to heat.

4.2 A significant reduction in the cost of living for tenants.

4.3 Investment in existing homes and estates.

4.4 Tenants continue to receive a good quality and well-valued Housing Service.

4.5 Greater visibility of the Housing Service locally for tenants.

4.6 Tenants continue to live in good quality, safe, homes in well managed neighbourhoods.

Financial impact

5.1 Appendix 6 sets out the Draft Housing Revenue Account Budget for 2018/19.

5.2 Projected expenditure on the HRA revenue account for 2018/19 is £99.8 million, including £9.3 million contribution to the Strategic Housing Investment Fund (SHIF). The SHIF is an amalgam of income from the HRA revenue and the Council Tax Discount Fund (CTDF). It is fully earmarked for the delivery of the business plan.

5.3 A high-level summary of the HRA's one and five-year budget and the impact on the housing investment fund is set out below.

Housing Revenue Account	**1 Year £m (2018/19)**	**5 Year £m (2018/19 – 2022/23)**
Revenue (See Appendix Two)		
Operating Income	£100	£529
Operating Expenditure and Debt Costs	£91	£487
Contribution to the Strategic Housing Investment Fund	£9	£42
Capital (See Appendix Four)		
Investment in homes, external fabric & estates and tenant services	£37	£170
Investment in New Homes	£41	£522
Staff Costs	£3	£17
Prudential borrowing	£16	£210
Other income and capital funded from Strategic Housing Investment Fund	£65	£499
Strategic Housing Investment Fund (Repairs and Renewals and Council Tax Discount Fund)		
Opening Strategic Housing Investment Fund (SHIF) balance	£65	£65
SHIF additions (include income from HRA revenue and CTDF)	£11	£53
SHIF draw downs	£34	£103
SHIF transferred to a ringfenced contingency reserve	£1	£7
Closing SHIF balance	£41	£8

5.4 The business plan assumes a significant drop in income during the full roll-out of Universal Credit to all tenants. In addition, a separate contingency reserve has been established to mitigate risks. This contingency reserve is set at £3 million in year one, building up to 10% of annual income by year 10. This is considered prudent given the risks to income collection, expansion of the capital programme and the need to have funds in reserve to deal with unforeseen events.

5.5 As a result of prudent treasury management and in year surpluses being used to offset capital borrowing in previous years, net debt levels are expected to increase by only £4.3 million at the end of 2017/18 compared 2012/13 levels, whilst at the same time delivering a £262.5 million capital investment programme during that period.

Risk, policy, compliance and governance impact

6.1 The three key strategic risks and mitigations to the delivery of the HRA Business Plan are:

6.1.1 **Tenants financial circumstances and welfare reform have an adverse impact on rental income**: The business plan takes account of the potential risks arising from welfare reform including under occupation, shared room rent, the four year Local Housing Allowance freeze, reduction in housing benefit backdating, universal credit and the removal of benefits to under 21 year olds. The business plan assumes a loss of £9 million income and creates a contingency fund of £3 million in year one rising to 10% of annual income (£15 million) in year ten of the business plan period.

6.1.2 **Changes in wider economy adversely affect the ability to deliver investment**: The business plan is reviewed annually as part of the budget development process.

6.1.3 **Mixed tenure challenges create ongoing obstacles to investment in properties and neighbourhoods**: The business plan assumes increased investment in external fabric of buildings and estates. Policy options for engaging other owners in mixed tenure improvement will be considered in 2018/19.

6.2 The Council has a statutory requirement to maintain homes to the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (EESSH).

6.3 The Council is required to set Council house rents annually. The Council is required to consult tenants on the rent strategy and inform them in advance of any rent increases prior to their implementation.

6.4 Housing and Economy Committee considered a report on the HRA budget strategy in September 2017 and approved it as a basis for consultation with tenants. The draft HRA Budget 2018/19 is submitted to Finance and Resources Committee for consideration prior to submission to full Council.

Equalities impact

7.1 Prioritising investment in services and improvements that reduce the cost of living for tenants will have a significant financial benefit for tenants who are under financial pressure.

7.2 Investing in existing homes and neighbourhoods means that all tenants benefit from improvements to their homes, regardless of where they live in the city.

7.3 Patch based working means Housing Officers are getting to know their tenants better. This should improve access to services for vulnerable tenants, as their needs will be more readily identified.

7.4 Investment in new homes and partnership working as part of Health and Social Care integration will help increase the supply of homes built specifically for older people or people with complex health needs.

7.5 The house-building programme ensures 10% of all new homes will be built to wheelchair accessible standards. 3,000 new homes will be built specifically for older people and people with complex health needs.

Sustainability impact

8.1 The Council led house-building programme seeks to maximise delivery of homes on brownfield sites, reducing pressure on Edinburgh's green belt. New homes are built to high standards in terms of energy efficiency and sustainability.

8.2 It is estimated the accelerated house-building programme will create 4,000 permanent new jobs.

8.3 Investing in improvements to Council homes will increase energy efficiency and lead to a reduction in carbon emissions.

8.4 There are positive impacts on adaptations, carbon emissions and sustainable development arising from this report.

8.5 The Council's partnership with Our Power will help ensure stable and affordable energy prices for tenants.

8.6 Improving employment options of tenants and their families.

9. Consultation and engagement

9.1 The Council has an extensive programme of consultation and engagement with tenants including an annual survey, focus groups, tenant panels, tenant led service inspections and resident and community meetings.

9.2 Each year the views of tenants are sought on the HRA budget strategy and the service improvements and rent levels arising from that. The approach to engaging tenants on the budget is reviewed annually by a working group of tenants and officers, the Rent Matters Working Group (RMWG). The RMWG is supported by Edinburgh Tenants Federation (ETF). The number of tenants engaging in the budget consultation has significantly increased since the formation of the RMWG.

9.3 Consultation on the 2018/19 budget took place in 2017. Appendix 7 summarises the results of the consultation. All tenants were sent information on the budget proposals, service improvements and rent levels. Individual responses were received from 1,236 tenants (out of around 19,000 tenants who were invited to provide views). This includes 1,001 tenants who took part in a detailed survey, commissioned by, but carried out independently of Council staff. Other responses were received on line and via social media, postcards, cut outs from newsletters and local events.

9.4 Over 30 tenant organisations received information packs and 230 individual Tenant Panel members received information either by email, text or letter. Four large events were held in the localities and tenants were encouraged to come and share their views face-to-face. The budget consultation was also discussed at the Tenants Conference held on 28 October 2017.

9.5 Tenants have consistently indicated strong support for building new homes, improving homes and services and stable and affordable rents.

9.6 In 2015 tenants indicated strong support for the budget strategy and identified building new affordable homes as their top priority for investment. Other significant priorities included reducing energy costs.

9.7 In 2016, 82% of tenants said they supported the 2% rent increase with one third of tenants supporting higher rent increases if delivery was accelerated.

9.8 In 2017, 80% of tenants expressed support for the investment proposals and rent strategy. Comments from those who responded included:

- *‘The plans are good and when completed will be great for everyone’*
- *‘Appears good. Keep up the good work’*
- *‘Really pleased with all the new houses’*
- *‘£2 is a fair amount, much has been accomplished’*

9.9 Tenants were also asked what costs they were increasingly having difficulty meeting.

- Energy 37%
- Food 32%
- Household bills 29%
- Clothes 24%
- Transport 24%
- Toiletries 21%
- Repaying debt 18%
- Rent 18%

9.10 In addition, one third of tenants with children said they were finding childcare more difficult to pay for.

9.11 The budget plan was also discussed at a meeting of the ETF on 13 November 2017. Officers presented the approach, key messages, consultation questions and results to date. ETF provided a formal response to the consultation commending the work of the RMWG in the development of the consultation. They were broadly supportive of the investment plan. They welcomed the below inflation increase, but continue to have concerns regarding long term affordability of rents.

10. Background reading/external references

Housing Avenue Account – Budget Strategy 2017-22, The City of Edinburgh Council, 9 February 2017

Housing Revenue Account (HRA) Budget Strategy, Housing and Economy Committee, 7 September 2017

City Housing Strategy 2018, Housing and Economy Committee, 2 November 2017

Strategic Housing Investment Plan (SHIP) 2018-23, Housing and Economy Committee, 2 November 2017

City Deal – Proposal for New Housing Partnership with Scottish Future Trust, Housing and Economy Committee, 2 November 2017

Housing Investment to Support Health and Social Care Priorities, Health, Social Care and Housing Committee, 19 April 2016

Integrated Housing, Health, Care and Support Services, Health, Social Care and Housing Committee, 15 November 2016

Paul Lawrence

Executive Director of Place

Contact: Elaine Scott, Housing Management & Development Manager

E-mail: elaine.scott@edinburgh.gov.uk | Tel: 0131 529 2277

11. Appendices

Appendix 1 – HRA Business Planning Process

Appendix 2 - Business Planning – High Level Assumptions

Appendix 3 – Citywide House-building Programme

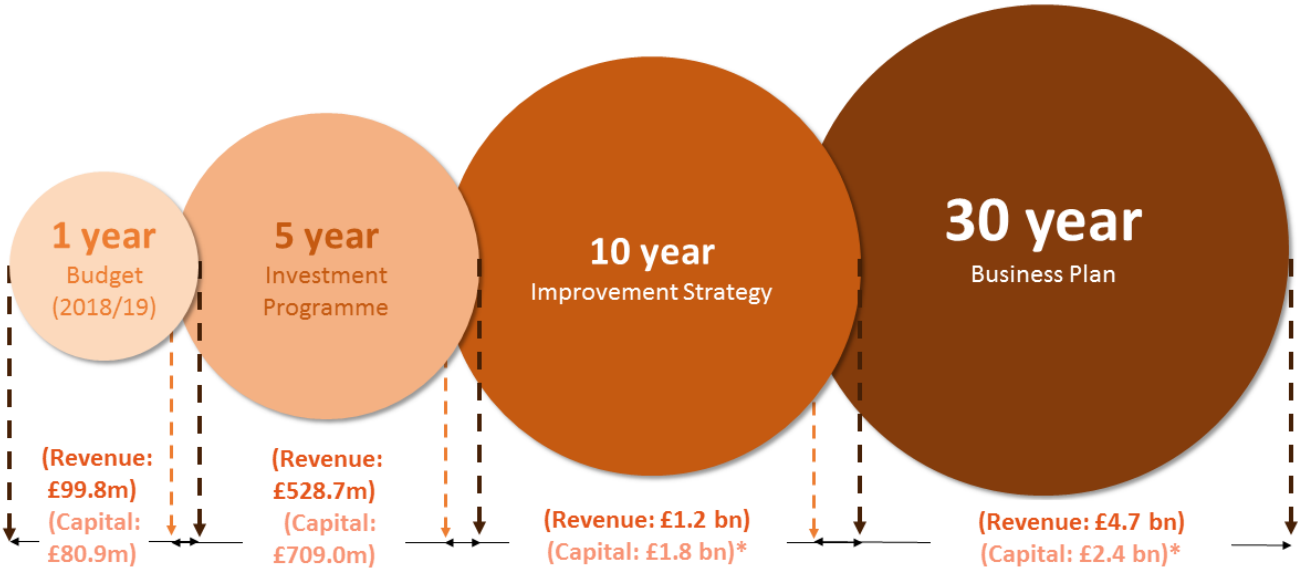
Appendix 4 – Draft 5 Year HRA Capital Investment Programme and 10 Year Investment Strategy

Appendix 5 – 30 Year HRA Business Plan Financial Analysis

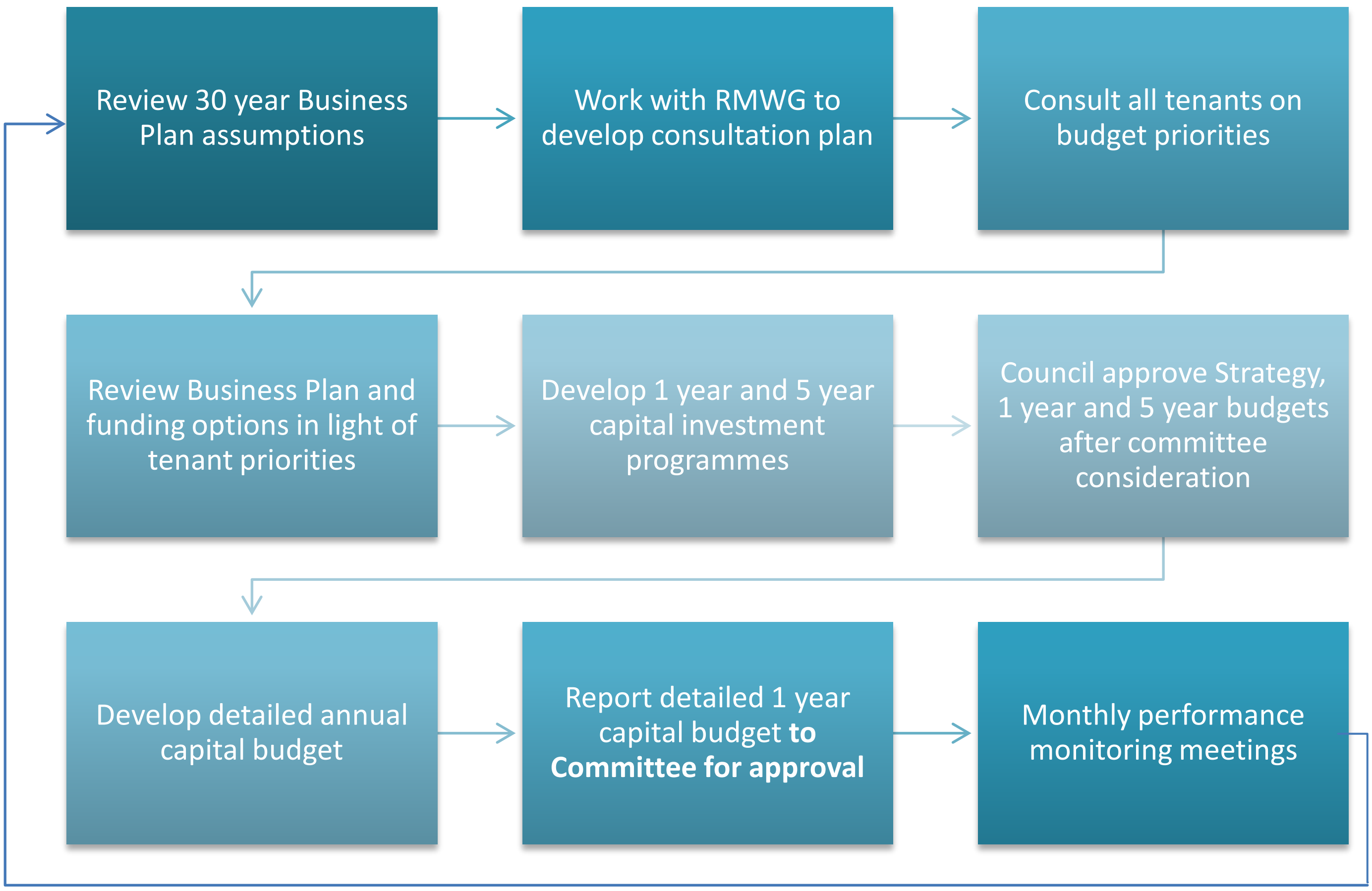
Appendix 6 – Housing Revenue Account Budget 2018/19 (Draft)

Appendix 7 – 2018/19 Budget Consultation Results

Appendix 1 – HRA Business Planning Process



** This includes £600m in the first 10 years and £740 million over 30 years for homes built on the HRA and purchased by the Council's LLP. This has no impact on the HRA as interest payments are deferred until the homes are purchased.*



Appendix 2 – Business Planning High Level Assumptions

Input	2018/19	Note
Inflation (Operating Costs)	2%	This assumption is below market projections, but is in line with the Bank of England inflation target. In order to deliver best value to tenants, management will attempt to limit the impact of inflation through efficiency measures.
Rent Increase	2%	Current market inflation projections range from 3%- 4%. Below inflation rent increases form part of the strategy to keep rents stable and affordable.
Net Rental income	97.53%	Total projected rental income, minus written off former tenant arrears and rent loss due to empty homes.
Former tenant arrears write off	1.89%	Any rental debt outstanding for over 3 months where there have been no payments received or there is no agreed repayment arrangement is written off annually. The projected write off at the end of 2017/18 is estimated to be £1.8m. This level of write off is maintained in 2018/19.
Rent lost on empty homes	0.58%	The Council remains one of the top performing Local Authorities in this area. Slight increase from 0.49% in 2017/18, to accurately reflect expected performance, with continued high proportion of lets to households with high levels of need.
Fees and charges increase	0%	Fees and charges for additional services provided with tenancies (e.g. stair cleaning, communal heating, furnished tenancies, etc) is frozen for the third year in a row.
Debt level (projected for March 2018)	£373m	Increased from £365m at 31 March 2017. This was due to increased borrowing requirement to support the accelerated capital investment programme in 2017/18.
Interest on debt (pool rate)	5.05%	Reduction of 0.05% from 2017/18. The Council does not borrow for specific projects, borrowing is pooled in a consolidated loans fund and the interest rate pooled across all projects.

Appendix 3 – City-wide house-building Programme *(December 2017)*

2,020 homes currently under construction on 32 sites

Reducing inequality through affordable housing

- Redeveloping brownfield land
- Public realm
- Mixed communities
- Employment and job opportunities
- Achieving wider health & Social Care objectives
- Homes for older people & those with complex needs

Appendix 4 – Draft HRA Five Year Capital Investment Programme & Ten Year Investment Strategy

The 2018/19 Draft Budget and business plan are based on the assumptions set out in Appendix 2. Below is the outline draft five-year Capital Investment Programme and summary 10-year investment strategy, which is based on tenant priorities, service performance and statutory investment requirements.

The funding strategy may be revised through the year as officers seek to make the best use of any existing and new resources and use the most appropriate funding to generate the best return to the HRA.

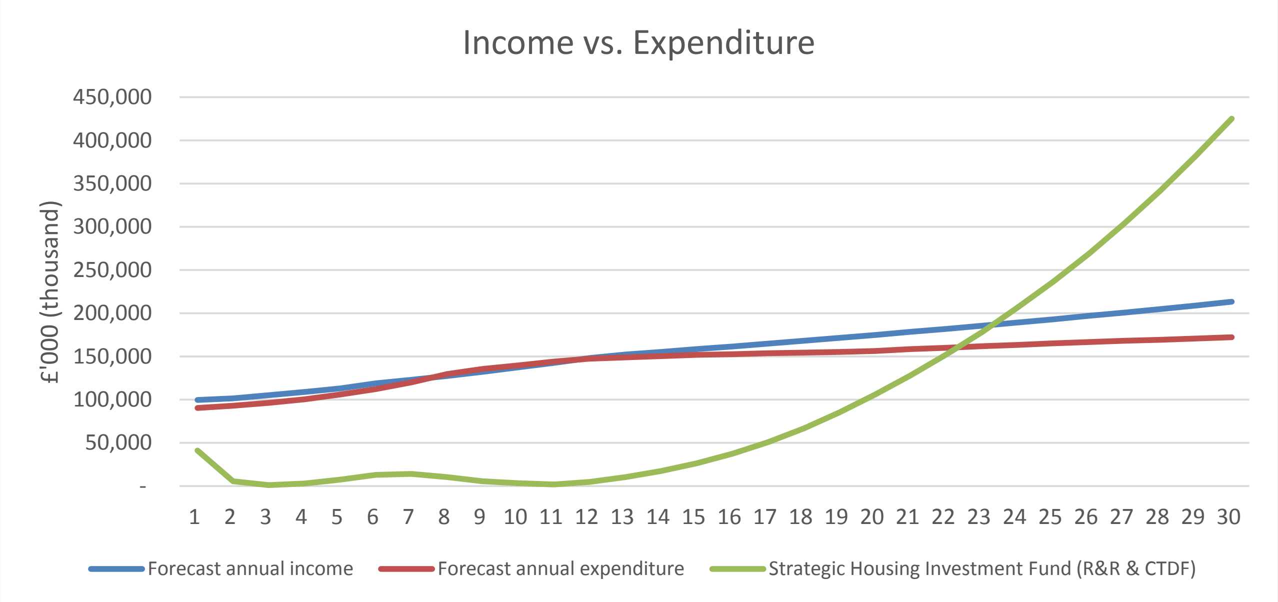
Programme Heading	1 2018/19 £m	2 2019/20 £m	3 2020/21 £m	4 2021/22 £m	5 2022/23 £m	***5 Year Total***	6 to 10 2023/24 to 2027/2028 £m	***10 Year Total***
Programme Expenditure								
New Homes*	41.526	118.753	113.726	118.736	129.354	***522.094***	836.410	***1,358.504***
Tenant's Homes & Services	23.128	29.895	20.326	17.358	17.208	***107.915***	78.116	***186.032***
External Fabric and Estates	13.535	13.535	7.470	10.728	16.472	***61.741***	106.256	***167.997***
Staff Costs	2.745	3.095	3.445	3.795	4.145	***17.225***	20.725	***37.950***
Total Expenditure	**80.934**	**165.278**	**144.967**	**150.617**	**167.179**	**708.976**	**1,041.508**	***1,750.483***
Programme Resources								
Prudential Borrowing	16.256	74.596	50.416	44.927	24.100	***210.296***	467.561	***677.856***
Capital Funded From Revenue	33.898	45.000	14.000	7.200	3.200	***103.298***	11.000	***114.298***
Capital Receipts and Contributions	5.923	4.387	5.720	7.440	6.800	***30.270***	12.000	***42.270***
Receipts from LLPs*	13.508	26.378	59.462	77.603	117.879	***294.830***	415.264	***710.094***
Scottish Government Subsidy	11.349	14.917	15.369	13.447	15.200	***70.282***	135.683	***205.965***
Total Funding	**80.934**	**165.278**	**144.967**	**150.617**	**167.179**	**708.976**	**1,041.508**	***1,750.483***

**The budget for new build housing includes the upfront capital costs for the Council led development of all 10,000 affordable homes, including homes for mid market and affordable market that will be purchased by the Council's new LLPs. This has no impact on the HRA as interest payments are deferred until the homes are purchased. £110m of the £710m anticipated receipts from LLPs by year ten is for homes already under construction and due to complete in the next two years.*

Appendix 5 – 30 Year HRA Business Plan Financial Analysis

This appendix sets out the impact of delivering the investment strategy over the next 30 years. The plan seeks to deliver 10,000 new Council-led homes over the next 10 years, as well as, investing in improving the quality of existing homes and estates and developing innovative services aimed at reducing tenants living costs. It sets out an £99.8 million budget for 2018/19, as well as, a £709.0 million draft five-year capital investment plan and 10 year £1.8 billion investment strategy, funded from below inflationary rent increases of 2% a year.

Based on the outcome of this year's comprehensive tenant consultation the business plan assumes a 2% annual rent increase. Over 80% of tenants said they supported the investment plan funded by an annual 2% rent increase over the next 5 years. This 2% rent increase is below the 3% current inflation estimates and significantly below the projected average local authority rent increases in 2018/19.



Maximising investment in current and new homes and delivering new services, means income and expenditure is more closely aligned. This is most visible in years 8 to 11 due to the significant investment in the new house building programme and an increase in debt repayment due to historic debt coming to term. Approximately £9.3 million (or an average of £2.3 million a year) is required from the Strategic Housing Investment Fund to ensure the HRA does not go into deficit in these years.

The business plan assumes a loss of income of around £9 million as the result of the full roll out of Universal Credit. In addition, a ringfenced contingency reserve has been established to ensure that the investment programme can continue even with an unexpected reduction in income or increase in unplanned expenditure. This contingency reserve is set at £3 million in year one, building up to 10% of the annual income in year 10.

From year 11 onwards, once new homes are completed, the additional rental income does put the HRA back in a comfortable financial position and builds the Strategic Housing Investment Fund to 17% of annual operating costs by year 15. The business plan currently assumes no large-scale investment following the completion of 10,000 Council-led homes over 10 years and the estate-wide regeneration of existing homes over 15 years. The graph above therefore shows the capacity of the HRA to continue the investment on existing homes and estates and building more new homes after the current improvement plan has been delivered.

Appendix 6 – Housing Revenue Account Budget 2018/19 (Draft)

	Projected Outturn 2017/18* £m	Proposed Budget 2018/19 £m	Movement £m	Movement %	Note
Net Income	98.729	99.765	1.036	1.05%	1
Expenditure					
Housing Services	27.470	29.494	2.024	7.37%	2
Property Maintenance	21.832	21.477	-0.355	-1.63%	3
Debt Charges	37.851	39.544	1.693	4.47%	4
Strategic Housing Investment	11.576	9.250	-2.326	-20.09%	5
Total Expenditure	**98.729**	**99.765**	**1.036**	**1.05%**	

**Based on the reported month 8 position. Please note a £1.000m presentational adjustment has been made to Income and Services relating to the treatment of write off of bad debt and arrears. A provision for former tenant arrears was previously contained within Housing Services expenditure budget. This is now a direct income reduction assumption.*

Note 1.

"Net Income" is the total rent due to be collected, less written off former tenant arrears and rent loss due to empty homes. It also includes service charges and costs recovered in relation to communal heating schemes and owner occupiers. Although a 2% rent increase has been proposed the real term increase in income is expected to be 1.05%. This is due to a reduction in rental income as a result of 'right to buy' sales during 2017/18, a freeze being applied to service charges and assumptions made around a loss of income due to the rollout of Universal Credit. The average weekly rent will increase by £1.92.

Note 2.

"Housing Services" includes core housing management services, new tenant and community services like energy advice and modern apprenticeships. It includes employee costs, central support costs and recharges, premises and other expenditure. Following transformation, the HRA realised a 10% reduction in core housing management costs in 2016/17 and 2017/18 following a reduction in manager and team leader posts and a reduction in overheads. The rise in the Housing Services expenditure in 2018/19 includes an inflationary increase (£0.400m), planned growth in services (£1.000m) and expansion of new tenant and community services like energy advice, employment support services and modern apprenticeships (£0.600m).

Note 3.

'Property Maintenance' includes responsive repairs, estates maintenance, routine gas servicing and the costs associated with bringing empty homes back into use. As a part of transformation, a 20% reduction in the responsive repairs element of property maintenance over five years is assumed. This reflects the impact of increased capital investment in homes.

Note 4.

The HRA borrows to finance the planned housing investment and house building capital programmes. 'Debt Charges' are capital financing costs (principal repayments and interest). As a result of prudent treasury management and in year surpluses being used to offset capital borrowing in previous years, net debt levels are expected to increase by less than £5 million at the end of 2017/18 compared to that at the end of 2012/13, whilst delivering over £260 million of capital investment during the same period. The 4.47% increase in 2018/19 is in line with the ambitious capital investment plan set out in the report.

Note 5.

'Strategic Housing Investment' relates to income in excess of annual operating expenditure. It can be used within the same year to fund new capital investment (CFCR), repay old HRA debt or mitigate unforeseen risks. It can also be transferred to the Repairs and Renewals fund to support the new build programme in future years. The reduction is due to increased investment to deliver new services and expansion of existing services. The Strategic Housing Investment Fund is an amalgam of the Repairs and Renewals Fund and the Council Tax Discount Fund.

Appendix 7 –2018/19 Budget Consultation Results

Consulting tenants: What did we ask in this year's budget consultation?

Q1. What do you think of the five year investment plan & what we've done so far?

Q2. Thinking about your wider area you live in, what would be the one thing that would improve it?

Q3. What do you think tenants have found more difficult to pay for ?

Q4. What else can we do to help?

1,236 responses (Including 1,001 responses through the Tenants Survey)

567 individual comments

We encouraged tenants to take part in a variety of ways...

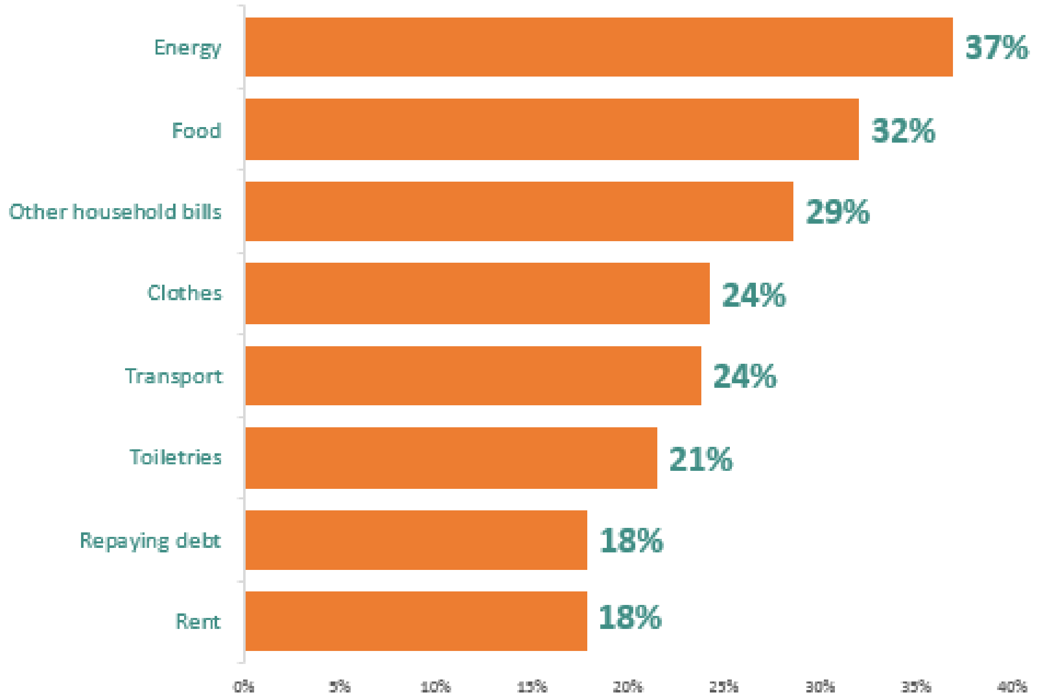
The Award Winning Rent Matters Working Group, made up of tenants, met five times to plan and deliver the annual budget consultation

- Online
- Postcard
- Cut-outs in newsletter
- Social media
- Local events
- Housing Officers, Concierge & Housing Property staff
- Text reminders
- Plasma Screens
- Posters
- Email footers emails
- Tenants Panel & RTOs

2018/19 Budget Consultation

82% of tenants who responded last year supported a 2% rent increase and almost a third were willing to pay more if improvements could be sped up. This year, 80% of tenants who responded were happy with the investment plan and progress to date

Q. Over the last 12 months, have you found it more difficult to pay for each of the following?*



* 31% of tenants, with childcare requirements said they were finding childcare more difficult to pay for

1236 tenants

Tenant priorities for local area: 3 Key Themes

- The maintenance and cleanliness of common areas e.g. grass cuttings, stair painting and cleaning
- The safety and security of blocks and areas e.g. lighting and secure doors
- New facilities for young people and tenants e.g. play parks and bike storage

What else can we do to help: 4 Key Themes

- Support to maximise incomes
- Better communication
- Improved maintenance and repair service
- Reduce the cost of energy

What tenants told us

What tenants think of the plan

‘The plans are good and when completed will be great for everyone’

‘£2 is a fair amount, much has been accomplished’

‘Good modernisations and improved living conditions’

‘It’s a lot for a lot of people who are struggling to pay rent as it is’

Tenant priorities for their areas

‘Better stair cleaning, benches around squares. This would help old people to get out of the house’

Parks for kids to play in, they have nothing in this area.’

‘Better Lights
more play parks, more youth services and support’

What else we could do to help?

‘More understanding regarding benefit cuts. Not just unemployed, but working family's too’

‘I would also like to see the housing officers come to see tenants more regularly’

‘Would definitely like to see energy efficiency within the building and homes, far too much energy and money is wasted’

How tenants responded

- 129 Locality Roadshows & Events
- 29 Online
- 40 Postcards
- 21 Tenants Courier
- 16 Door knocking
- 1,001 Tenant Surveys