The 2017/18 Proposed Housing Revenue Account Budget

The main income and spend types in the HRA are:

Income

- Gross Rent
- Service charges
- (Rent loss on Voids)
- Useable Capital receipts
- Other revenue income

Spending

- Capital investment in homes
- Revenue repairs to homes
- Management & Service costs
- Debt costs
- Bad debts

Assumptions and resulting figures for the 2017/18 budget are set out below:

Income

Gross rent:

Since 2000 Bristol had been following government rent restructuring policy – meaning individual rents have increased each year to try to bring them to converge with their Target rent level. Annual rent increases have generally been above inflation over this period. However, for 2016/17 to help reduce welfare benefit spend, the Government announced a major change in social rent setting meaning rents will reduce by 1% p.a. for four years from 2016-2020. Rent policy after 2020 is, as yet, unclear

The current 2016/17 52-week rent is £81.00 and so applying the 1% reduction, the average rent for 2017/18 would be **£80.19 on a 52-week basis, the equivalent 48-week rent would be £86.87.**

Stock figures for setting the 2017/18 budget assume:

- Losses: RTB sales continue at the current rate for the remainder of this year (resulting in 184 sales) and slightly increase during 2017/18 (to 200 sales), and there are other stock losses of 20 (due to empty homes being leased)
- New build completions in 2016/17 of 60 and in 2017/18 a further 63

This gives an average stock figure in 2017/18 of **27,202**.

Therefore the resulting gross rent budget for 2017/18 would be **£113.429m**

(N.B. last year there was a one-year exception to rent decrease policy made for supported housing, so rents in sheltered followed 'old' policy of CPI+1% increases. This exception has now been ended so sheltered rents will also decrease by 1%)

Service charges:

Service charge income can only cover costs, not exceed them, so service charges generally rise in line with cost increases. Last year this meant most service charges rose by 2.2% reflecting compound salary increases (as most service costs are staffing costs). The main services that separate service charges are levied for include caretaking, Service To Older People, laundries, CCTV and communal heating.

For 2017/18 the proposal is that the vast majority of tenant & leaseholder Service Charges (except communal heating - see below) should increase to again reflect salary increases. Therefore the increase for 2017/18 would be **1%** (the pay increase for 2017). There is one very minor exception to this for the cleaning of sheltered schemes where the charge will rise by 20% to reflect the increase in salary costs for this service to bring wages to the Living Wage. The charge is very small and even after the increase will be £3.25 per week (paid by 1,627 tenants of sheltered housing).

For Communal Heating costs we are largely just passing on utility company heating costs to tenants. It is proposed that heating costs pre-payments should increase by 10% next year as this is the estimate of increases in energy costs. Should energy costs not rise as much as anticipated tenants will be refunded any over pre-payments when actual accurate bills are issued.

The net (of forecast voids and heating refunds) service charge budget for 2017/18 is therefore **£8.4m**

Voids:

The loss of rent income due to voids is based on the current performance of -1.76% of potential income, with an improvement to **1.5%** (in line with the measures being implemented to reduce void times / speed up relets and reduce tenancy failures and the number of homes returned in a poor state).

The budget for rent loss due to voids in 2017/18 is therefore **£1.7m**

Capital receipts:

These are largely from the sale of council homes under the Right To Buy to sitting tenants at a discount. Sales for 2017/18 are forecast to be **200**, with an average sale price after discount of **£65k**. Because we plan to re-invest receipts to build new

council homes we are potentially able to keep more of these ‘additional’ or 1-4-1 RTB receipts – but these can only be used to fund new homes.

Total RTB receipts forecast to be received in 2017/18 are £13m with £2.4m to be repaid to government, leaving **£10.6m** useable receipts (£6.25m Additional 1-4-1 receipts and £4.35m ‘normal’ RTB receipts).

Other receipts generated from the sale of non-operational HRA assets (i.e. not homes but land, commercial assets, etc.) are 100% useable (with few constraints on their use) – these are forecast to be **£1.2m** in 2017/18.

The forecast for useable receipts to be applied to fund the 2017/18 capital programme is **£2.42m** of Additional 1-4-1 receipts - used to fund 30% of the new build programme in 2017/18. The remaining receipts will be added to balances and carried forward to help support the capital programme in future years.

Other revenue income:
This consists of charges for other assets and interest on balances.

Interest on balances is calculated using the consolidated interest rate the council receives (which is currently low at 0.25%) applied to the average level of balances forecast for 2017/18 – this results in a budget of **£0.25m**

Other income from commercial leases, shop rents, ground rents, etc. will be largely as per the rent levels included in the individual lease agreements - this results in a budget for 2017/18 of **£0.6m**.

In the past garage rents rose by the same % as the rent increase, although there is no government policy relating to garage rents. For the last two years we have increased garage/parking bay rents by around 10% p.a. and simplified the calculations to bring them to more ‘sensible’ whole numbers. The proposal for 2017/18 is to apply more moderate increases – on the basis any further significant increase is likely to lead to tenants giving up their garage. A review of some garage sites is planned to identify those that could be let more commercially to raise income for the HRA. The following weekly charges are recommended for 2017/18:

Garages:
- Council Tenants = £13.50 (was £13),
- Leaseholders = £16.50 (was £16),
- Non-Council Tenants = £20 (was £19),
- Non-Council Tenants Premium Sites = £40 (was £38.40)

Parking Plots:
- Council Tenants/Leaseholders: £4 or £6 depending on site (no increase),
- Non-Council Tenants – £6 or £8 depending on site (was £5.40 or £7.20)

There are currently around 2,000 garages (of which 481 are let) and a further 110 parking plots. The low level of letting is due to the uncertainty over the future of many

sites (we are looking to develop as many sites as possible) and the state of repair of the garages.

Based on the level of let garages/parking bays this would result in a gross rent income of **£413k**

The total budget for other income in 2017/18 is therefore **£1.3m**

Expenditure

Capital & Revenue repairs (further details in Appendix 3)**:**

In response to the financial pressure on the HRA, we have begun a major review of our investment priorities and resulting investment plan. Where possible, we have sought to restrict non-essential expenditure and implement immediate savings that can be reflected in the 2017/18 budget.

The first phase of the review has concluded and has informed the proposed Capital & Revenue investment Plan for 2017/18. Services / budgets were identified as a priority for review and the Asset Management Team worked with the delivery teams to understand the reasons for delivering the service, the duties and limitations (e.g. contractual) and to challenge whether the service could be delivered differently.

Some services have been reviewed thoroughly and we are confident in the short and long term forecasts. However, some services have received a preliminary review, with identified next stages for further work. Responsive Repairs and Relets in particular will be the subject of ongoing review to continuously improve efficiencies and identify savings as more reliable data emerges through the use of Civica Cx new housing management system.

The total **Capital** (i.e. major investment that improves homes) investment in new and existing homes = **£42.1m.**

This is a very significant reduction and represents a 24% cut from the 2016/17 original capital budget of £55.6m. The council's housing stock is ageing, and our homes, particularly our blocks of flats, are showing signs of structural failings. The proposal is to defer decisions on major capital improvement projects whilst we improve our overall asset intelligence, focusing on blocks, by dedicating internal resources to further and more in-depth condition surveys and structural assessments. The capital savings identified early on the in the Business Plan will allow a contingency to deal with these issues, ensuring homes are sustainable into the long term.

Total r**evenue** repairs and maintenance = **£31.7m**.

Again this is a significant reduction (18%) from the original budget for 2016/17 of £38.5m. However, much of this reduction has been achieved by correctly identifying

and recording capital works (especially at relet) and further work is required to identify revenue savings.

For accounting purposes funding capital investment is split into two broad categories, Depreciation and other. Depreciation is an accountancy term and is the calculated level of basic re-investment needed to keep homes in reasonable repair (calculated using lifecycles / element costs as per our investment planning approach). This sets the minimum level of revenue funding to capital investment in homes that must applied in that year (or set aside in a separate reserve account to be invested in homes in the future). Depreciation is shown as an expenditure item in revenue, and an income item in capital and the figure for 2017/18 is **£24.7m**.

Management and service costs:

These costs are split between general management costs for delivering housing services to all tenants and Service Costs for the delivery of specific services, with separately levied service charges. Management and service costs comprise of:

- Direct Housing staffing costs (Response Repairs, Planned Programme, Estate Management, Caretaking, Rent Management & Business Planning & Service Development) are calculated based on establishment costs (i.e. staff) plus overheads
- Generic support recharges (e.g. Finance, ICT, HR, etc.) are generally based on a % split of the costs of these services attributable to activity in the HRA.
- Charges for specific services delivered by the council on behalf of the HRA (e.g. ASB, Rehousing, Grounds Maintenance) are based on the cost of the services provided to the HRA

Work has taken place in 2016/17 to identify workforce & overheads savings in landlord services. These have identified £1.9m of savings to be achieved though deleting vacant posts, allowing voluntary severance and working more efficiently supported by the incoming new Civica Cx housing management system. However, to counter these savings there is a salary increase of 1% to be added 2017/18 costs. Work has also begun to look at all recharges to the HRA to identify whether these are still legitimate in light of major savings that are also taking place in the General Fund. So far this work has identified a reduction of £1.3m / 10% in recharges to the HRA. Further work will be undertaken during 2017/18 and it is anticipated further reductions in recharges will be achieved. Budget for 2017/18: **Management costs: £25.9m, Service costs £8.5m**

Debts costs:
These are the forecast for interest payments on the £245m debt on the HRA, these generally relate to long-term loans on fixed rate interest charges. The budget for debt costs in 2017/18 is **£11.3m**.

Bad debts:
This figure is not the level of arrears, but is rather the amount of money set aside to cover bad debts (i.e. older former or current tenants' arrears that are not collectable). The collection rate for current tenants rent is 95%. The bad debts figure of £2.9m represents **2.5%** of gross rent and is higher than performance in previous years. This reflects the initial likely impact of welfare benefit reforms – as c.70% of tenants are in receipts of housing benefit. This figure is a high risk factor and will need to be monitored closely. The budget for bad debts 2017/18 **is £2.9m**.

Other:
Other costs of **£1.9m** include other rents and rates and council tax payments on void properties (this budget has increased as the previous discount on council tax on voids is assumed to be removed).

Resulting budget 2017/18

Income Revenue	**£m**	**Revenue Spending**	**£m**
Gross Rent	113.4	Revenue repairs	31.7
Voids	-1.7	Management costs	25.9
Net Service charges	8.4	Service costs	8.5
Other revenue income	1.3	Debt costs	11.3
		Bad debts	2.9
		Other	1.9
		Depreciation	24.7
		Other revenue financing of capital	15.0
Revenue Income Total	**121.4**	**Revenue Spend Total**	**121.9**
Revenue Surplus/(Deficit)			**(0.5)**
Income Capital		**Capital spending**	
Useable Capital receipts applied	2.4	Capital investment	42.1
Depreciation	24.7		
Other revenue financing of capital	15.0		
Capital Income Total	**42.1**	**Capital Spend Total**	**42.1**

There are choices regarding the funding of some elements of the 2017/18 HRA budget. In particular, the £15m ‘balance’ of funding of the capital programme (after funding from 1-4-1 Additional RTB receipts and Depreciation has been taken into account). This balance could be funded from in-year revenue, revenue reserves or capital reserves, or a mixture of these. For 2017/18 we have used in-year revenue and thus are showing a small annual deficit. This small revenue deficit of £0.5m will be funded from existing reserves. This leaves reserves in the HRA of:

- Revenue reserves - £44.6m
- Capital receipt reserves - £28m.
- Earmarked reserves - £32m (including a £25m of Additional 1-4-1 RTB receipts that can only be used to support 30% of the cost of new homes).

These reserves will be carried forward and available to fund future HRA expenditure – and are critical to keeping the HRA Business Balanced for a number of year – see Appendix 2.

HRA Business Plan Model 2017/18 – 2047/48

An up-to-date version of the HRA BP model has been built on the proposed budget figures for 2017/18 and future forecasts. The 2017/18 HRA BP reflects the financial pressures on the HRA, largely as a result of the 1% rent reduction for four years and the impact of welfare benefit reforms. The plan includes a continuation of the savings achieved in management costs in 2017/18, reduced capital & revenue investment in existing council homes and a new build programme of 785 (compared to a previous figure of 1,000 homes over 15 years).

The key assumptions used in the Base BP are set out in Table 1 below

Based on these assumptions the **BP is fully funded for 16 years**.

However, there is insufficient funding from year 17 onwards and by year 30 the total **funding gap of capital investment is £210m**

And this shortfall is despite using up all of the current £90m held in reserves.

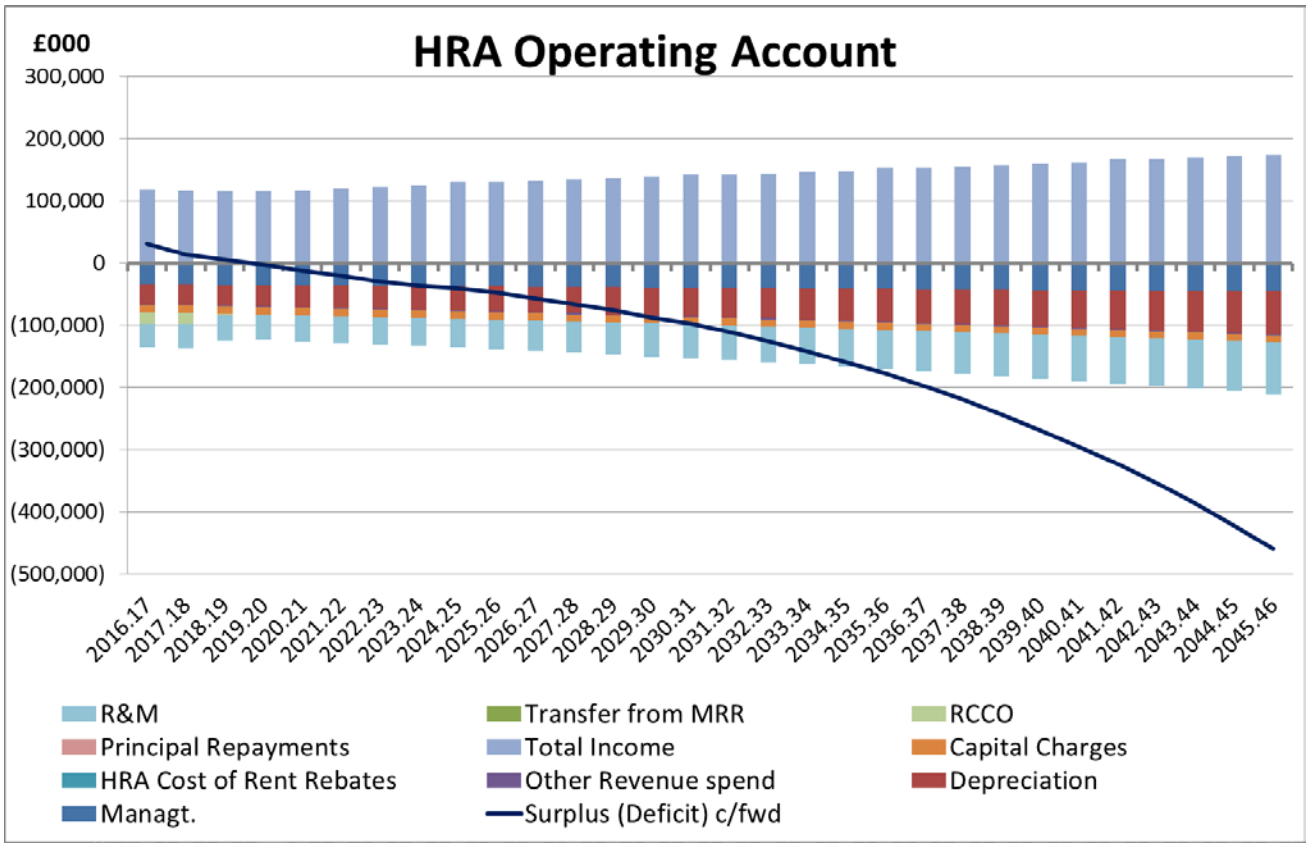
Table 1 : Assumptions in the Base Business Plan:

Item	Importance to BP	BP Assumptions
General		
Stock numbers	Number of homes key to driving forecasts about rental income	Opening stock = 27,280. Reduced by RTB sales / increased by new build (see below). Stock by year 10 = 25,430 (net loss 1,850)
Inflation	Underpins forecasts for income and expenditure. Rent income uses lower CPI figure, expenditure general goes up by higher RPI.	Treasury forecasts for 4 years then reverting to government long term target (RPI 3.1%, CPI 2.1%)
Borrowing/debt	The level of debt ('mortgage') held in the HRA impacts both: - The level of interest the HRA needs to pay on that debt - The amount of any new borrowing possible before reaching the debt cap	Opening debt of £245m, interest payment of £12m p.a. No additional borrowing assumed and small number of loans that fall due during the BP are assumed to be refinanced. Debt cap of £257m meaning a further £12m could be borrowed if required

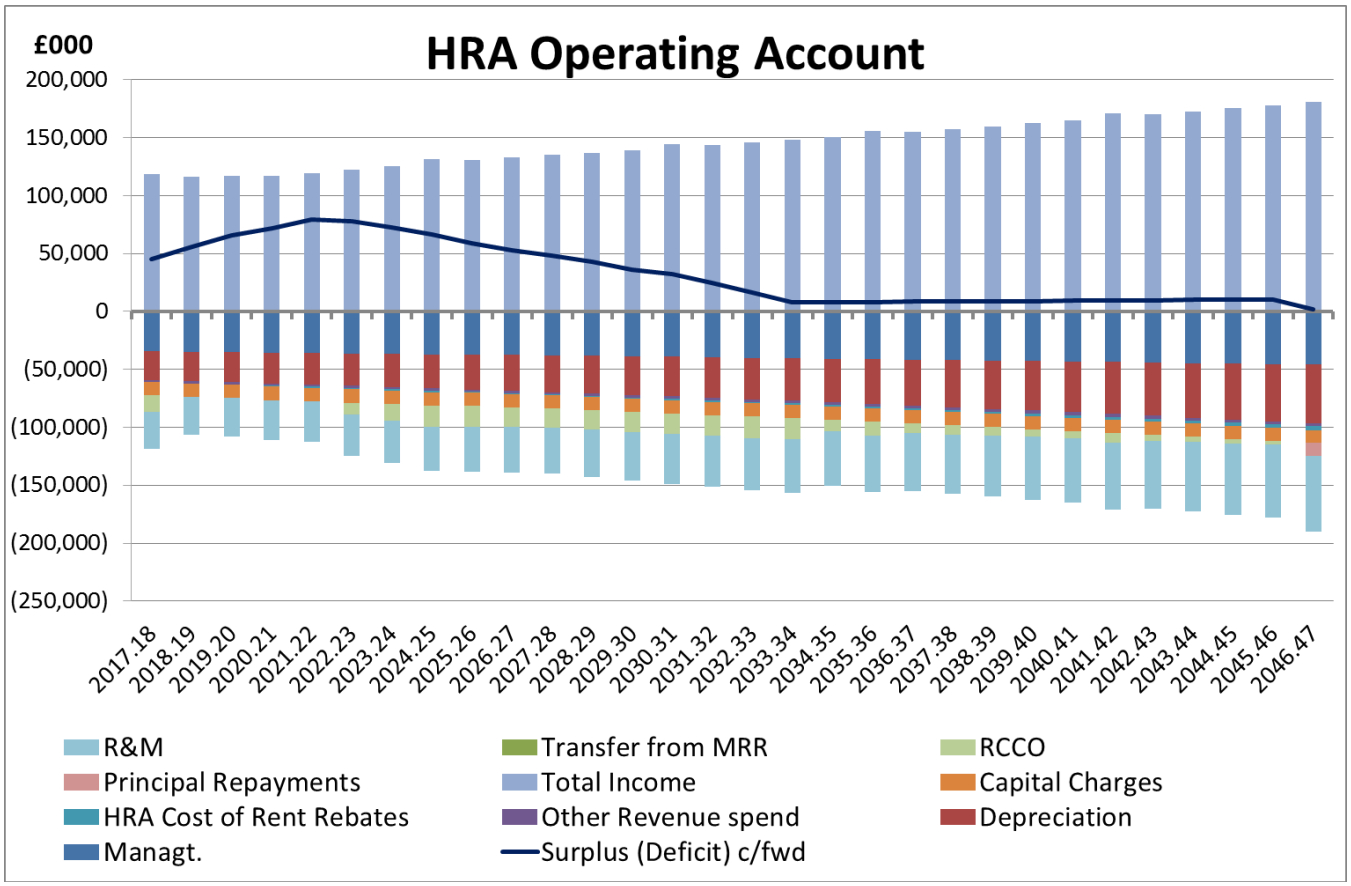
Balances	Balances brought into the start of the plan help to fund expenditure in the early years of the BP where annual expenditure outstrips annual income	£90m of HRA reserves coming into 2017/18 (including £45m of revenue, £22m of capital and £22m of Additional 1-4-1 RTB receipts.
Income		
Rent income	The vast majority of income is from tenants rents. Assumptions about both rent levels and stock numbers are key to the BP.	Average rent for 2017/18 = £80.19 (52 week), resulting in a gross rent of £113m in 2017/18). Target rent increases as per government policy, i.e. : -1% for a further 2 years, CPI+1% for the next 5 years and CPI thereafter. This increases gross rental income to £129m by year 10.
Service charge income	Charges for specific service (e.g. caretaking, laundries) should cover the cost of these services (year one service charge income = £8.4m)	Charges increase in line with increases in costs. Costs are generally salary/overheads or utility costs and are assumed to rise by 1% p.a. in line with recent pay awards.
Voids	The level of void properties impacts on net rental and services charge income (no tenant = no rent)	BP assumes a rental loss of 1.5% p.a. due to empty homes. This results in a rent loss on voids of £1.7m
Bad Debts	Lost rental income due to provision for bad or doubtful debts (i.e. the increase in the amount of rent arrears or rent written off)	The BP assumes a level of loss of 2.41% based on current performance but an increase to 2.9% from 2019/20 with the introduction of further welfare changes (Universal Credit)
Sundry income	Relatively limited income from shops, garages, etc. 2017/18 budget = £1.3m	This income is assumed to not rise as we expect to see a continued loss in the number of let garages as sites are earmarked for development and income from shops etc. is linked to lease agreements.
Right To Buy	RTB levels have two main impacts on the BP: - Loss of stock = loss of rent - Sales mean capital receipts and, with the reinvigoration of RTB and ability to retain additional receipts if they are reinvested in new homes, these receipts have a significant impact on the BP	Sales in 2017/18 forecast to be 200 (an increase from the forecasts sales in 2016/17 of 184) but to reduce slightly year on year down to 160 sales by year 10. The average valuation of homes sold is £125k, with an average discount of £65k. Total gross receipts in 2017/18 are £13m, some of which are repaid to government. But the council keeps £4.35m of 'normal' RTB receipts plus potentially £6.25m of Additional 1-4-1 receipts (that can only be used as 30% of the cost of new homes and are time limited and if not used must be repaid to government). By year 10, gross RTB receipts are forecast to be £16m - £4.7m 'normal' and £8.5m 1-4-1 (to use this level of 1-4-1 receipts we would need a new build programme of £28.3m)
Other stock losses	A small loss of other stock – previously from sales of high repair acquireds, now sales	Based on continuation of current approach which would lead to loss of 20 homes p.a. throughout BP. Previously this would have

	are on hold this is due to the lease of these homes for use as temporary accommodation for homeless households	raised c. £4m to be re-invested in new or existing homes. However, sales are no longer taking place as homes are being used by other providers for temporary accommodation for homeless households. In future receipts form sales would be paid to government as Higher Value Levy – This is a high risk area as actual levy could be considerably higher.
Expenditure		
Management Costs and Service Charge costs	Spending on staffing salaries and overheads to provide the landlord service – direct costs within Housing Delivery plus recharges from other parts of the council. 2017/18 budget of £25.9m management, and £8.5m service costs	Management costs assumed to rise by 1% as mostly salaries. Service costs also assumed to rise by 1%.
Repairs and Maintenance (Revenue)	Spend on the day-to-day responsive repairs, relets and maintenance of homes. Most of spend on internal workforce and materials / some contracted out. 2017/18 budget £31.7m	Budget based on spend required to relet homes to a lower standard plus demand-led responsive repairs and necessary maintenance (e.g. gas servicing). BP assumes costs rise by RPI as building cost inflation historically rises above other costs
Capital Programme – Investment in stock	Biggest elements of spend in BP on major repairs and elemental replacement (kitchens, rewires, heating, etc.). Most work contracted out to external contractors. 2017/18 budget £42.1m.	Budget considerably reduced and aimed to maintain homes at Decent Homes Standard improvements (e.g. kitchens or heating replacements) but removes some elements of previously planned improvements to standards such as a bathroom programme, or the cladding of all low rise and high rise non-traditional homes. Costs are assumed to rise by RPI, again as building costs tend to rise above other costs
New build programme	New homes have two key impacts on the BP: - Additional rental income (can be significant over whole BP but most homes do not break even in 30-years). - Significant building costs (budget for 2016/17 = £8m)	785 homes to be built over 15 years. Around 50 new homes p.a. at an average unit cost of £150k, resulting in an annual programme of £9m. (N. B. in order to use additional capital receipts generated in 2017/18 of £6.25m p.a. spend on new homes of £20.8m is needed).
Debt costs	Annual interest payments on existing debts on the HRA – priority area of spend.	Opening debt of £245m with interest charges of £12m

HRA Base BP 2016/17



HRA BP 2017/18



HRA BP 2017/18