Agenda Item No: **5**

CITY OF WOLVERHAMPTON COUNCIL

Cabinet Meeting

13 January 2016

Report title	Housing Revenue Account business plan (including 2016/17 budget rents and service charges)	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Peter Bilson City Assets Councillor Andrew Johnson Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All	
Accountable director	Lesley Roberts, City Housing Mark Taylor, Finance	
Originating service	Housing Service	
Accountable employee(s)	Kenny Aitchison Tel Email	Service Manager Housing Strategy and Development 01902 554841 kenny.aitchison@wolverhampton.gov.uk
	Martin Fox Tel Email	Finance Business Partner 01902 553470 martin.fox2@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendation(s) for action or decision:

The Cabinet is recommended to recommend that Council:

1. Implements the 1% reduction in social housing rents in accordance with the Welfare Reform and Work Bill and to give 28 days' notice to all secure and introductory tenants of the rent reduction from 4 April 2016.

2. Adopt the business plan set out at appendix A as the approved Housing Revenue Account (HRA) business plan including
   a) The revenue budget for 2016/17 at Appendix A3
   b) The capital programme for 2015/16 to 2019/20 at Appendix A4

3. Agree the increases to garage rents and service charges set out in appendices B1-B3 and formally notify tenants.

Recommendations for noting:

The Cabinet is asked to note:

1. That all Council dwelling rents will reduce by 1% in line with the proposals contained in the Welfare Reform and Work Bill.
2. The consultation responses as outlined at Appendix C
3. Proposals to meet the requirements of the Heat Network regulations 2014 for the district heating schemes at Heath Town and New Park Village
4. The potential impact of the current Housing and Planning Bill on the HRA business Plan

1.0 Purpose

1.1 This report presents an updated Housing Revenue Account (HRA) business plan for recommendation to Full Council.

1.2 The report also provides, as an integral part of that business plan, a proposed HRA budget for 2016/17, including proposed rents and service charges to take effect from 4 April 2016, and a proposed HRA capital programme for the period 2016/17 to 2019/20 for recommendation to full Council.

2.0 Background

2.1 Since the implementation of HRA self-financing in 2012, the Council has been required to set out its Housing Revenue Account (HRA) business plan. The business plan is monitored quarterly and reviewed annually to ensure that assumptions remain robust and resources within the plan are sufficient to meet expenditure requirements. Appendix D provides more detail on HRA self-financing.

2.2 Prior to 2014 the increase in rents was based upon a formula of retail price index (RPI) plus 0.5% plus £2.00. In 2014 the government introduced a new formula for increases of Consumer Price Index (CPI) plus 1%. In order to provide certainty for councils, the government stated that this rent policy would exist for 10 years. The Council's HRA business plan was therefore predicated upon rents going up by more than inflation each year throughout the lifetime of the plan.

2.3 In the Chancellor's budget of July 2015, it was announced that all council dwelling rents would reduce by 1% each year from 1 April 2016 for the next four years to 2020. This announcement was subsequently included in the Welfare Reform and Work Bill currently progressing through parliament. Previously, there was no statutory underpinning for local authority rent setting, the formulae in paragraph 2.1 were provided as guidance. The proposed 1% reduction would be mandatory once legislation is enacted.

2.4 In Wolverhampton, a 1% reduction in dwelling rents each year for the next four years compounds to an overall reduction of 12% when the anticipated increases based upon CPI plus 1% are also taken into account.

2.5 Updating the plan to take into account the 1% reduction and other assumptions such as inflation resulted in an indicative shortfall of resources of £622 million over the 30 year lifetime and a potential breach of the borrowing cap in 2030. This, in addition to recognising the need to create headroom for new build, meant it was necessary to complete a comprehensive review of the plan.

3.0 Addressing the HRA business plan shortfall

3.1 Since the July budget announcement, employees from Housing Services, Strategic Finance and Wolverhampton Homes have been working together to address the £622 million shortfall within the HRA business plan. In addition opportunities have been considered to release additional resources to enable an acceleration of new build housing within the HRA.

3.2 Five key areas were looked at

- Remodel the business plan with different assumptions on inflation, interest, stock numbers etc.
- Review the capital programme
- Review the allowances paid to Wolverhampton Homes and the four tenant management organisations
- Increase income to the HRA by raising service charges and consider converting some voids from social rent levels to affordable rent levels.
- Identify opportunities to increase the level of new build

Remodelling the business plan assumptions

3.3 The previous HRA business plan was predicated on the principle that rents will rise year on year by CPI plus 1%, using the government's assumptions on future rates of inflation. After the proposed 1% reduction in rents for the next four years the proposed plan returns to the assumption that rents will rise by CPI plus 1% and a CPI rate of 2%.

3.4 Building costs within the plan were linked to RPI rather than CPI; the business plan has been remodelled using CPI plus 0.5% as inflation for building costs.

3.5 Assumptions in properties lost through demolition and right to buy have been amended assuming that right to buy sales will tail off over the next few years and plateau at around 130 per year. After the proposals for Heath Town are implemented, there are no other demolition schemes being considered.

3.6 These measures combined reduce projected costs within the HRA business plan by £188 million.

Reviewing the Capital Programme

3.7 At the conclusion of the Decent Homes programme a significant amount of work has gone into reviewing the entire capital programme and the asset management plan and building cost model that underpins it. Based upon up to date stock condition information adjustments to when components replaced with decent homes investment will need to be replaced again have resulted in a further reduction in costs of £340 million over the 30 years of the business plan.

3.8 When this figure is adjusted for inflation over 30 years it reduces costs by an additional £80 million. It also results in less borrowing over 30 years and therefore less interest payable reducing projected costs by a further £120 million.

3.9 The overall impact of these measures equates to a reduction of £540 million over the lifetime of the business plan.

Allowances paid to the managing agents

3.10 Wolverhampton Homes and the four tenant management organisations each get paid allowances from the HRA to reflect the services they provide on behalf of the Council to tenants. Since 2013 their allowances have not increased year on year; this freeze was due to continue to 2018.

3.11 As part of the exercise to review the HRA business plan, the allowances paid to each organisation were considered. Two options were put to each of the managing agents; one which proposed to reduce their allowances by 1% for each of the four years of the rent reduction then an annual increase based upon CPI plus 1%; alternatively the freeze in allowances would be extended to 2020 followed by an annual increase in line with CPI.

3.12 Each of the TMOs and Wolverhampton Homes have agreed to the second option which reduces costs to the business plan of £220 million over 30 years.

Increasing income to the HRA – Service Charges including central heating charges

3.13 The imposed 1% reduction in dwelling rents does not apply to service charges or other rental income charged alongside social rent. Affordable rents and any service charges within the affordable are rent are subject to the 1% reduction. As part of the consultation with tenants and managing agents, service charges for concierge services and hostels charges, and garage rents were proposed to increase by CPI plus 1%. Based upon CPI in September 2015 this means these will each rise by 1%. This was generally accepted.

3.14 It is proposed that service charges for communal areas, communal cleaning, digital TV and fencing remain unchanged with no increases or decreases for 2016/17. The costs of these services are fully recovered from the existing level of service charge.

3.15 It is also proposed not to increase the services charges to tenants who benefit from heating/hot water supplied by district heating schemes at Heath Town and New Park Village. The Heat Network Regulations 2014 require all councils who have district heating schemes to charge tenants for actual usage and not by a set fee.

3.16 Working with Wolverhampton Homes and New Park Village TMC, employees from Housing Services will support tenants affected over the next 18 months. At New Park Village this will mean transferring the “landlords supply” electricity meter over to the tenant and assisting the tenant in changing from a dual meter to a single meter as well as offering support in budgeting and energy efficiency. The weekly charges of £16.61 for a two-bed property and £18.32 for a three-bed will be removed from the rent account and the tenant will be responsible for paying their electricity supplier directly.

3.17 At Heath Town, as part of the conclusion of decent homes works and the proposed regeneration works, each property will have a meter installed to measure the heat and hot water being used. The tenant will then be billed individually for their usage. The heating charge is currently made up of two elements; a maintenance charge and a consumption charge. Once the meter has been installed the consumption charge will end but the maintenance charge of £6.20 per week will remain. This charge covers the cost of running and maintaining the Boilerhouse and district heating system and for those tenants eligible is covered by housing benefit.

3.18 In line with government guidance, all service charges recover 100% of the cost of the service provided and are no longer subsidised by the HRA. The exception to this is the central heating charge paid by approximately 20,000 tenants. Introduced over 25 years ago the charge was raised after new central heating systems were installed on a rolling programme. The charge has varied over the years going up to £3.00 per week but currently stands at £2.00 per week. However £2.00 per week only provides half of the costs of servicing and replacing central heating systems.

3.19 To bring the central heating service charge in line with the other service charges and to make the charge cover the whole cost of the service, the charge would need to be doubled from £2.00 per week to £4.00 per week.

3.20 During the consultation with tenants the question was raised why tenants with electric heating paid the same weekly charge as those with gas heating if the rationale behind the proposed increase was to make the service charge cover the cost of the service to those tenants who directly benefit from it. Electric heating does not require the same level of servicing as gas.

3.21 Taking account of this issue the proposal is now to reduce the central heating service charge for electric heating to £1.00 per week and to increase the gas central heating to £4.00 by increasing it by £0.50 on 4 April 2016 and then by £0.50 each year for the following three years.

3.22 Service charges are set out at Appendix B2.

Affordable rents

3.23 Since 2011 the Council has been able to convert up to 50% of voids arising each year from social rents to affordable rents, if the council signed up to an agreement with the Homes and Communities Agency (HCA) which would commit the Council to utilising all of the increased income to a council house new build programme. An affordable rent is set at up to 80% of market rent; social rents are generally about 60% of market rents within the city.

3.24 In April 2014 Cabinet adopted an “affordable rent strategy” which agreed to set affordable rents for new build properties but not for existing stock.

3.25 During the consultation with tenants this issue proved to be the most controversial, probably due to the coverage within the Express & Star. In general tenants felt that having different rents for the same properties would create inequality among tenants living next door to each other.

3.26 It is proposed that further work is carried out to determine the equality impacts upon tenants and to discuss with the HCA the terms of any framework contract with them for building additional new council homes. A further report will be presented to Cabinet in due course when further consideration has been given to the benefits and disbenefits of converting void properties from social to affordable rents when relet.

3.27 Summary of proposals to be implemented

Measure	Current Assumption	Proposed Assumption	Notional Impact over 30 years
Use CPI+0.5% for inflation on revenue/capital costs	RPI	CPI+0.5%	£188M
Revised Capital Programme	£2.0 Billion over 30 years	£1.6 Billion over 30 years	£540M
Management Allowance to WH/TMOs	Freeze to 2018 then CPI +1%	Extend freeze to 2020 then increase by CPI	£220M
Increase gas heating Service Charge incrementally to full cost recovery	£2 per week	Stepped increase 50p per week each year to £4 p/w by 2020	£75M
Decrease electric heating service to cost recovery	£2 per week	£1 per week	(£4M)

The proposals above address the indicative shortfall of £622 million over the 30 year business plan and the potential breach of the borrowing cap highlighted in paragraph 2.5, whilst building in headroom for future new build and ensuring borrowing reduces over the 30 year plan.

3.28 If, after further consideration, a policy of converting voids from social rent to affordable rent is introduced, then the notional impact over 30 years would be a further £220 million.

Conversion of social rent to affordable rent	Only for new build	Up to 500 per annum from 16/17 up to a max of approximately 5000	£220M

4.0 New build programme

4.1 In addition to addressing the notional shortfall caused by the rent reduction, greater headroom has been created within the HRA to increase the number of new council houses that can be built.

4.2 Within the current HRA business plan there is a funding provision to build 64 new units. The increased headroom created will allow for an additional 400 new units by 2020. Based upon a unit cost of £140,000 this will require an investment of approximately £56 million over the next four years.

	Current Programme	Additional annual programme	Additional cost
New Build	64 (CaSSH 1, SCP 1 & Tap Works)	2016/17 – 100 2017/18 – 200 2018/19 – 50 2019/20 - 50	(£56m)

5.0 New Housing and Planning Bill

5.1 The Housing and Planning Bill currently making its way through parliament will have a significant impact upon the HRA business plan. This impact has not yet been assessed and the measures outlined in paragraph 3 above do not take into consideration the implications of the Bill.

5.2 The most significant impact upon the HRA business plan will be from the sale of high value council homes to support the funding of the extension of Right to Buy to housing association tenants. The Bill will enable the government to set out a definition of ‘high value’ homes and will create a duty on the Council to consider selling homes that meet this definition when they become vacant. The Bill will also allow the government to estimate the amount of money it would expect the Council to receive, in each financial year, from sales of high value homes. The Council will then be required to pay this amount to the Treasury. In all probability, this will need to be paid in advance of any receipts being realised. Details of both the definition of high value homes and the mechanism by which the government will calculate the amount owed by the Council are not known yet.

5.3 The Bill will require social tenants with a higher income to pay a higher rent. Generally known as ‘Pay to Stay’ it will mean that any household earning more than £30,000 per year will be required to pay up to private market rent levels for their council home. The Bill will require council tenants to declare their income to their landlord and will also allow social landlords to share data with HMRC. The Bill will require the Council to return any additional rental income generated by this policy (minus administrative costs) to the Treasury. The government has yet to set out how increased rents will be calculated.

5.4 The Bill also requires local authorities to introduce flexible tenancies. Flexible tenancies are fixed term tenancies lasting from two to five years. The Council was given the power to utilise flexible tenancies in the Localism Act 2011 but its Tenancy Strategy approved by Cabinet on 12 January 2013 chose not to do so. All new tenancies starting after 1 April 2017 will be required to be for a fixed term up to five years.

6.0 Financial implications

6.1 The announcement by central Government that social housing rents are required to be reduced by 1% per annum over the next 4 years has required a significant review of the HRA business plan in order to bridge the funding shortfall of £622 million. Reviews have been undertaken on underlying assumptions within the business plan, the required scale of the 30 year capital programme, payments to management organisations, service charges, and future rent levels for void properties. The changes set out in the report are reflected in the revised business plan included at Appendices A1-A3. This also includes funding for additional new build housing within the HRA.

6.2 The HRA is expected to have sufficient resources to fund £1.6 billion of capital works that will be required to its houses over the next 30 years, as well as meeting its management and maintenance obligations over the same period. In addition, the savings achieved on the review of the capital programme and other changes has released resources that will enable an additional 400 new homes to be built over the next 4 years.

6.3 The capital programme showing the allocation of resources over the main areas of activity is shown at Appendix A4. Further detail in specific areas will be presented to Cabinet (Resources) Panel in March for approval.

6.4 The level of rent increase has been determined by central government. Increases to non-dwelling rents and service charges are set out in Appendix B. These have generally been increased in line with inflation other than central heating charges which for gas heating will be increased over the next four years to a level that recovers the cost of the service

6.5 As part of the self-financing arrangements introduced from April 2012 there is a cap placed on the level of debt that can be incurred in the HRA. The maximum amount for Wolverhampton is £356.8 million. Appendix A2 graphically presents the forecast debt curve based upon the capital expenditure, including new build, included within the business plan after implementing the proposals recommended in this report. This shows the maximum anticipated debt of £319.4 million in 2017/18 providing headroom for realisation of some of the risks to the business plan as set out in Appendix E.

6.6 There remains considerable uncertainty around the impact on the HRA of the Housing and Planning Bill currently passing through Parliament. In particular there could be a one off payment required as early as 2016/17 to cover the potential sale income from high cost voids which will be required by Government to support its policy of right to buy for housing association properties. There is no information currently available as to the basis of calculation of the one off payment or what sum might be required to be paid. This

could have a significant impact on the business plan, dependant on the value of payment, and a further update will be provided once final information is available.
[JB/23122015/F]

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7.0 Legal implications

7.1 Statutory requirements as to the keeping of a Housing Revenue Account (HRA) are contained in the Local Government and Housing Act 1989 ('the 1989 Act'). The 1989 Act include a duty, under Section 76 of the 1989 Act, to budget to prevent a debit balance on the HRA and to implement and review the budget.

7.2 Under Section 24 of the Housing Act 1985, local housing authorities have the power to "*make such reasonable charges as they may determine for the tenancy or occupation of their houses*". Section 24 also requires local authorities, from time to time, to review rents and make such changes as circumstances may require. This provision conferring discretion as to rents and charges made to occupiers, will now be subject to further restrictions arising from the provisions of the Welfare Reform and Work Bill ('the bill'), when brought into force.

7.3 The bill is in the latter (House of Lords) stages of the law-making process and is subject to amendment during these stages. The final version of the bill is expected to become law in early 2016. The bill provides a mechanism through which social landlords will be required to ensure that rents payable by tenants reduces by 1% each year between 2016 and 2019. It is envisaged the first reduction will take place in April 2016.

7.4 Rent and other charges are excluded from the statutory definition of matters of housing management in respect of which local authorities are required to consult their tenants pursuant to Section 105 of the Housing Act 1985 and Sections 137 and 143A of the Housing Act 1996 in relation to secure, introductory and demoted tenants respectively.

7.6 The Council has nevertheless undertaken to consult with tenants before seeking to change rent and other charges.

7.7 It is further provided by Section 103 of the Housing Act 1985 in relation to secure tenancies, (which also applies in respect of introductory tenancies) that its tenants are notified of variation of rent and other charges at least 28 days before the variation takes effect by service of a notice of variation.
[RB/17122015/Q]

8.0 Equalities implications

8.1 There is a difficult balance to be struck in deciding the levels at which rents and services charges are set and the income required to maintain and to improve services and properties. This is based upon a thirty-year forecast which sets out indicative levels of future rental income and forecast changes to expenditure levels. The Council has always operated a very open and consultative approach to service and rent reviews. Events, newsletters and social media have been utilised to engage with tenants.

8.2 An Equality Analysis has been completed and there are no implications to consider further. Details of the consultation with residents and stakeholders are attached at appendix C.

9.0 Environmental implications

9.1 This report has no direct environmental implications. The Investment and improvement of the city housing stock will have a significant positive impact on the overall city environment.

10.0 Human resources implications

10.1 There are no direct human resources implications resulting from this report

11.0 Corporate landlord implications

11.1 There are no direct Corporate Landlord implications resulting from this report.

12.0 Schedule of background papers

12.1 Welfare Reform and Work Bill 2015-2016
Housing and Planning Bill 2015-2016
Heat Network (Metering and Billing) Regulations 2014
The Housing Revenue Account self-financing determinations 2012

13.0 Schedule of Appendices

A	**Housing Revenue Account business plan**
A1	30-year business plan
A2	Forecast capital expenditure and debt curve
A3	Medium term business plan
A4	Capital programme
B	**Recommendations concerning income**
B1	Non-dwelling rents
B2	Service charges and heating charges
B3	Hostel rents and charges
C	**Summary of consultation responses**
D	**Background to the Housing Revenue Account**
E	**Risk analysis**

Appendix A1

This report is PUBLIC – [NOT PROTECTED]

30 year business plan 2016/17 to 2045/46

REVENUE ACCOUNT	**Years 1 - 5 £000**	**Years 6 - 10 £000**	**Years 11 - 15 £000**	**Years 16 - 20 £000**	**Years 21 - 25 £000**	**Years 26 - 30 £000**
Income						
Dwelling Rents	(456,295)	(497,927)	(558,980)	(622,795)	(696,381)	(784,181)
Other Rents	(1,781)	(1,999)	(2,254)	(2,549)	(2,891)	(3,287)
Service Charges	(33,612)	(39,649)	(43,624)	(48,029)	(52,734)	(58,320)
	(491,688)	**(539,575)**	**(604,858)**	**(673,373)**	**(752,006)**	**(845,788)**
Expenditure						
Management and Maintenance (net of retained surpluses)	242,290	262,510	288,802	320,897	355,316	393,575
Depreciation and Provision for Redemption of Borrowing	172,972	201,043	256,673	303,267	356,539	408,623
Net Financing Costs	76,426	76,022	59,383	49,209	40,151	43,590
	491,688	**539,575**	**604,858**	**673,373**	**752,006**	**845,788**
Balance	**-**	**-**	**-**	**-**	**-**	**-**

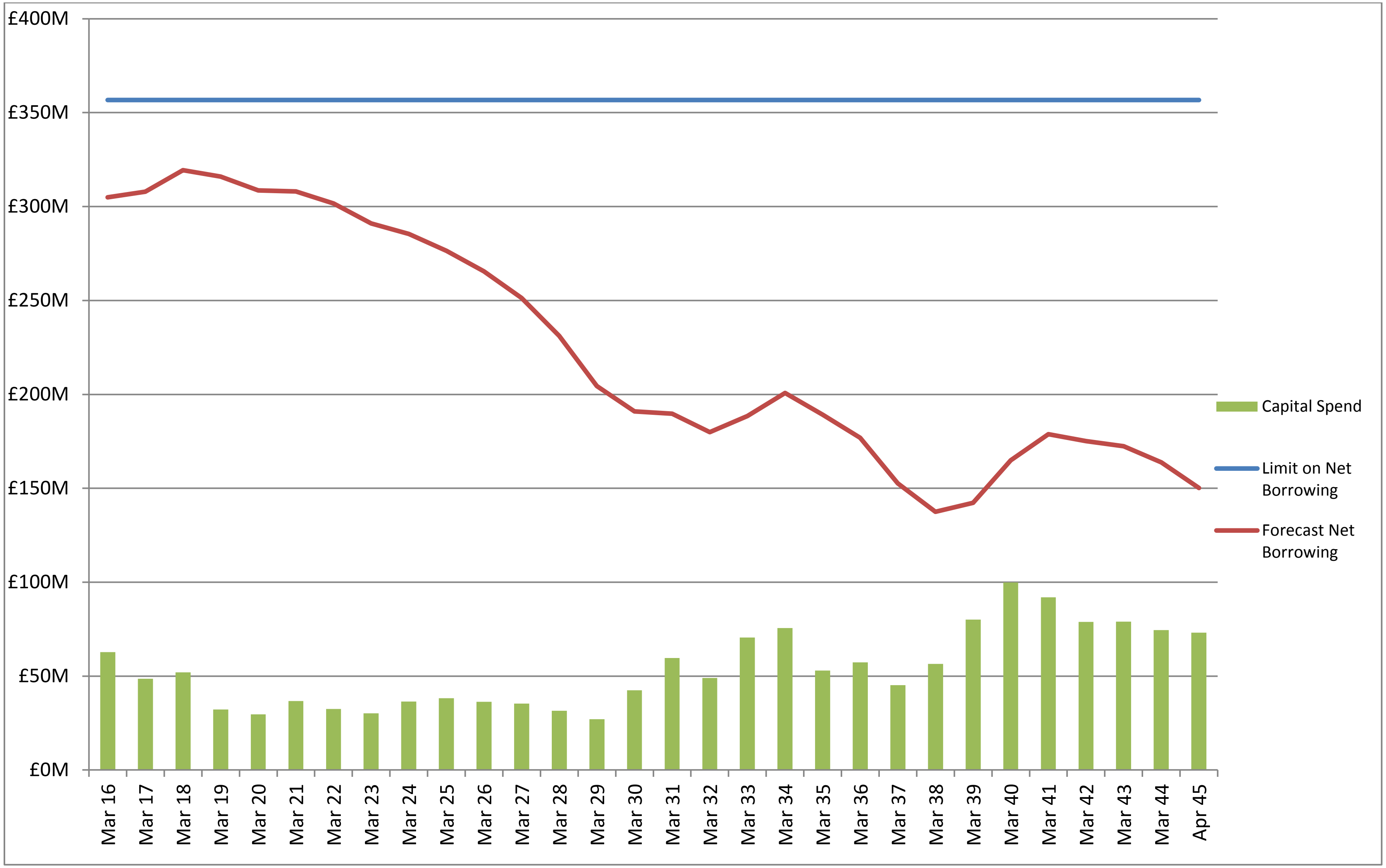
Appendix A1

CAPITAL ACCOUNT	Years 1 - 5 £000	Years 6 - 10 £000	Years 11 - 15 £000	Years 16 - 20 £000	Years 21 - 25 £000	Years 26 - 30 £000
Expenditure						
Capital Expenditure	199,313	173,697	196,179	305,578	373,764	380,221
Financing						
Major Repairs Reserve	(110,276)	(108,785)	(107,220)	(105,574)	(103,845)	(102,475)
Grants, Contributions and Receipts	(23,120)	(15,238)	(15,238)	(15,238)	(15,238)	(15,238)
Borrowing	(65,917)	(49,674)	(73,721)	(184,766)	(254,681)	(262,508)
	(199,313)	**(173,697)**	**(196,179)**	**(305,578)**	**(373,764)**	**(380,221)**
Balance	**-**	**-**	**-**	**-**	**-**	**-**

CAPITAL FINANCING REQUIREMENT	Years 1 - 5 £000	Years 6 - 10 £000	Years 11 - 15 £000	Years 16 - 20 £000	Years 21 - 25 £000	Years 26 - 30 £000
Opening Capital Financing Requirement	**304,876**	**308,097**	**265,513**	**189,782**	**176,854**	**178,841**
Capital Expenditure Financed by Borrowing	65,917	49,674	73,721	184,765	254,681	262,508
Provision for Redemption of Borrowing	(62,696)	(92,258)	(149,452)	(197,693)	(252,694)	(306,148)
Net Movement in Capital Financing Requirement	**3,221**	**(42,584)**	**(75,731)**	**(12,928)**	**1,987**	**(43,640)**
Closing Capital Financing Requirement	**308,097**	**265,513**	**189,782**	**176,854**	**178,841**	**135,201**
Borrowing Cap	356,770	356,770	356,770	356,770	356,770	356,770
Borrowing Headroom	**48,673**	**91,257**	**166,988**	**179,916**	**177,929**	**221,569**

Appendix A2

Forecast capital expenditure and borrowing curve 2016/17 to 2045/46 after implementing recommendations of this report



Appendix A3

Medium term business plan

REVENUE ACCOUNT	2015/16 Estimate £000	2016/17 Budget £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000
Income					
Dwelling Rents	(94,257)	(92,389)	(90,963)	(90,131)	(91,138)
Other Rents	(262)	(341)	(348)	(356)	(364)
Service Charges	(5,176)	(5,670)	(6,239)	(6,787)	(7,453)
	(99,695)	**(98,400)**	**(97,550)**	**(97,274)**	**(98,955)**
Expenditure					
Wolverhampton Homes	38,021	38,021	38,021	38,021	38,021
Bushbury Hill EMB	1,261	1,261	1,261	1,261	1,261
New Park Village TMO	375	375	375	375	375
Springfield Horseshoe TMO	353	353	353	353	353
Dovecotes TMO	1,091	1,091	1,091	1,091	1,091
Housing Support	1,270	1,318	1,347	1,378	1,411
Pension contributions	2,378	2,373	2,428	2,486	2,548
SLA/Recharges	882	1,032	1,056	1,081	1,108
Depreciation	22,228	22,171	22,113	22,056	21,997
Net Financing Costs	12,859	13,273	14,345	16,340	16,428
Provision for Bad debts	2,250	2,250	2,250	2,250	2,250
	82,968	**83,518**	**84,640**	**86,692**	**86,843**
Surplus/deficit for the year	**(16,727)**	**(14,882)**	**(12,910)**	**(10,582)**	**(12,112)**
Provision for the redemption of debt	**16,727**	**14,882**	**12,910**	**10,582**	**12,112**
Balance	**-**	**-**	**-**	**-**	**-**

Appendix A3

CAPITAL ACCOUNT	2015/16 Forecast £000	2016/17 Budget £000	2017/18 Budget £000	2018/19 Budget £000	2019/20 Budget £000
Expenditure					
Capital Expenditure	62,826	48,616	52,014	32,269	29,709
	62,826	**48,616**	**52,014**	**32,269**	**29,709**
Financing					
Major Repairs Reserve	(28,047)	(22,173)	(22,113)	(22,056)	(21,997)
Grants, Contributions and Receipts	(16,401)	(8,547)	(5,430)	(3,048)	(3,048)
Borrowing	(18,378)	(17,896)	(24,471)	(7,165)	(4,664)
	(62,826)	**(48,616)**	**(52,014)**	**(32,269)**	**(29,709)**
Balance	**-**	**-**	**-**	**-**	**-**

Appendix A3

CAPITAL FINANCING REQUIREMENT	2015/16 Forecast £000	2016/17 Budget £000	2017/18 Budget £000	2018/19 Budget £000	2019/20 Budget £000
Opening Capital Financing Requirement	**303,225**	**304,876**	**307,890**	**319,451**	**316,034**
Capital Expenditure Financed by Borrowing	18,378	17,896	24,471	7,165	4,664
Provision for Redemption of Borrowing	(16,727)	(14,882)	(12,910)	(10,582)	(12,112)
Net Movement in Capital Financing Requirement	**1,651**	**3,014**	**11,561**	**(3,417)**	**(7,448)**
Closing Capital Financing Requirement	**304,876**	**307,890**	**319,451**	**316,034**	**308,586**
Borrowing Cap	356,770	356,770	356,770	356,770	356,770
Borrowing Headroom	**51,894**	**48,880**	**37,319**	**40,736**	**48,184**

Appendix A4

Capital Programme

	Forecast 2015/16 £000	Forecast 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000	Total £000
Decent Homes Stock Condition						
All Saints Voids	178					178
Heath Town District Heating		350				350
Lincoln and Tremont Heating	100					100
Merridale Court	259	3,276				3,535
Refurbishment of Voids	1,402	2,642	2,711	2,709	2,733	12,197
External Improvement Programme	1,800	1,650	1,350	1,350	1,350	7,500
Boiler Replacement Programme	900	775	675	675	675	3,700
Internal decency Works	2,894	740	1,085	1,300	1,640	7,659
Follow on Decent Homes - Heath Town	10,820	7,126				17,946
Ellerton Walk Maisonette Blocks			1,518	2,167		3,685
Heath Town - Refurb of Retained Properties	3,839	4,597	6,507	6,502	5,466	26,911
Additional High Rise Schemes	4,327	222	542	813	820	6,724
Decent Homes Stock Condition	**26,519**	**21,378**	**14,388**	**15,516**	**12,684**	**90,485**
Decent Homes Public Realm						
Communal Areas Improvement	243	444	683	759	918	3,047
Street-scaping	70	127	195	217	262	871
Decent Homes Public Realm	**313**	**571**	**878**	**976**	**1,180**	**3,918**
Major Stock Condition Improvements						
Low Hill Residential Repairs	12,543					12,543
Major Stock Condition Improvements	**12,543**	**0**	**0**	**0**	**0**	**12,543**
Estate Remodelling						
Heath Town	4,923					4,923
Estate Remodelling	**4,923**	**0**	**0**	**0**	**0**	**4,923**
New Build Programme						
New Build Thompson Avenue	200					200
Tap Works site		4,000				4,000
Care and Support Specialised Housing	2,665					2,665
Tower and Fort Works		1,000	1,000			2,000
Strategic Construction Partnership Phase 1	1,700					1,700
Strategic Construction Partnership Phase 2		3,000				3,000
New Build Programme		10,000	27,000	7,000	7,000	51,000
Starter Homes Project	438					438
New Build Programme	**5,003**	**18,000**	**28,000**	**7,000**	**7,000**	**65,003**

Adaptations for People with Disabilities						
Disabled Adaptations	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**5,000**
Other Stock Condition Improvements						
Structural Works	1,166	947	953	952	955	4,973
Lift and Disability Discrimination Act Improvements - High Rise	498	544	664	688	694	3,088
Fire Safety Improvements - High Rise	363	264	271	271	273	1,442
Roofing Refurbishment Programme	5,978	2,663	2,549	2,547	2,569	16,306
Energy Efficiency Works	2,179	1,035	1,053	1,051	1,060	6,378
Door Entry Security Programme	296	370	380	380	383	1,809
Other Stock Condition Improvements	**10,480**	**5,823**	**5,870**	**5,889**	**5,934**	**33,996**
Other Improvements to the Public Realm						
Pathway Improvement and Safety Programme	265	264	298	308	331	1,466
Other Improvements to the Public Realm	**265**	**264**	**298**	**308**	**331**	**1,466**
Service Enhancements and Miscellaneous						
Right to Buy Social Mobility Fund	200					
City Council Capitalised Salaries	250	250	250	250	250	1,250
RTB Sale Admin	30	30	30	30	30	150
Wolverhampton Homes Capitalised Salaries	1,300	1,300	1,300	1,300	1,300	6,500
Service Enhancements and Miscellaneous	**1,780**	**1,580**	**1,580**	**1,580**	**1,580**	**7,900**
GRAND TOTAL	**62,826**	**48,616**	**52,014**	**32,269**	**29,709**	**225,234**

Appendix B1

Non-dwelling rents

Garage rents

1. The table below sets out recommended garage rents to take effect from 4 April 2016. It is recommended that the increase in the basic rent (before VAT) is 1% based upon the previous rent guidance of CPI plus 1% where CPI is zero.

2. Under VAT rules, garages that are let along with a dwelling do not attract VAT, whereas those that are let separately do. Furthermore, exemption from VAT only extends as far as two garages per tenant/leaseholder. Therefore there are three different levels of garage rents

	Rent per week 2015/16 (excl VAT)	% increase 2016/17	Rent per week 2016/17 (excl VAT)	Rent per week 2016/17 (incl VAT)
Dwelling tenants and leaseholders (No VAT)	£4.54	1%	£4.59	
Dwelling tenants and leaseholders – three or more garages (VAT)	£4.54	1%	£4.59	£5.51
Privately let garages	£6.51	1%	£6.58	£7.90

Appendix B2

Service charges

Service Charge	Services funded	Rationale for charge	Charge paid per week 2015/16	Proposed change	Charge paid per week 2016/17
Communal Facilities	Communal facilities in former sheltered schemes	Cost of service is fully covered by current charge	£3.00	No change	£3.00
8 hour concierge support	8 hour on site concierge support without remote CCTV and door entry	Increase to ensure cost of service is fully recovered	£8.44	1% increase	£8.52
Concierge mandatory only	Essential caretaking duties	Increase to ensure cost of service is fully recovered	£5.51	1% increase	£5.57
Concierge mandatory plus remote CCTV and door entry	Essential caretaking duties and remote CCTV and door entry	Increase to ensure cost of service is fully recovered	£9.71	1% increase	£9.81
Concierge mandatory plus remote CCTV and door entry - phased	Essential caretaking duties and remote CCTV and door entry phased increase of £2pw each year until parity with rest of service	New service introduced in 2013, phased increase charge of £2pw each year to 2017	£6.00	£2 per week	£8.00
Communal cleaning	Cleaning services in communal areas in certain properties	Cost of service is fully covered by current charge	£3.24	No change	£3.24
Digital TV	Installation and maintenance of the wiring required to convey digital TV signals to certain high rise blocks	Cost of service is fully covered by current charge	£0.64	No change	£0.64
Fencing	Replacement of boundary fencing delivered by Wolverhampton Homes. All funds raised by this charge are ring-fenced to replacement fencing	Sufficient income raised to fund fencing programme	£2.00	No change	£2.00

Appendix B2

Service Charges – Heating

Service Charge	Services funded	Rationale for charge	Charge paid per week 2015/16	Proposed change	Charge paid per week 2016/17
District Heating maintenance	Maintenance of boilers and district heating at Heath Town	Cost of service is fully covered by current charge	£6.20	No change	£6.20
District Heating Usage (Heath Town)	Provision of heating and hot water at Heath Town Estate	No change to existing charge pending implementation of "pay for what you use" metering	£4.64 - £21.05	No change	£4.64 - £21.05
District Heating Usage (Lincoln and Tremont)	Provision of heating and hot water at Lincoln House, Tremont House and Wednesfield Road, Heath Town	No change to existing charge pending implementation of "pay for what you use" metering	£6.77 - £9.04	No change	£6.77 - £9.04
Electric Heating at Ellerton Walk	Electricity usage for Economy 7 heating	Proposal to change landlords meter over to tenant	£16.61 - £18.32	Remove charge	Nil
Central Heating – Gas	Servicing, maintenance and replacement of gas central heating systems	Current charge only covers 50% of costs. Raise by 50p per week each year for next 4 years	£2.00	£0.50 per week increase	£2.50
Central Heating - Electric	Servicing, maintenance and replacement of electric heating	Charge reducing to reflect actual costs of service	£2.00	£1.00 per week reduction	£1.00

Hostels rents and charges

1. It is recommended that rent be increased in line with previous guidance rents. (CPI + 1% where CPI is zero). Rents and charges will increase by 1%.

Charge	2015/16 White House £pw	2015/16 Other* £pw	Proposed Increase	2015/16 White House £pw	2015/16 Other* £pw
Gross Rent	£204.92	£130.35	1%	£206.97	£131.65
Charges:					
- Support/Care	£57.51	£54.90	1%	£58.09	£55.45
- Heating, lighting, water	£18.78	£18.78	1%	£18.97	£18.97
Total minimum cash payable	£18.78	£18.78	1%	£18.97	£18.97
Total maximum cash payable	£76.29	£73.68	1%	£77.06	£74.42

*Properties at Ellerton Walk, Lathe Court and Heath Town

Appendix C

Housing Rents and Service Charges Consultation

9 November – 11 December 2015

1.0 Consultation methods

1.1 Unlike previous years, the Council led the consultation with tenants, stakeholders and managing agents. In previous years Wolverhampton Homes carried out the consultation on behalf of the Council.

1.2 Meetings were arranged with Wolverhampton Federation of Tenants Associations (WFTA) and each of the managing agents and the public were invited to two meetings held in the Civic Centre.

1.3 Tenants also received a newsletter delivered by Wolverhampton Homes explaining the proposals the Council was considering.

1.4 A response form was set up on Wolverhampton Homes' website and social media, both the Council's and Wolverhampton Homes' was used extensively.

1.5 All councillors were emailed to explain the Councils proposals and press releases sent to the local media.

2.0 Consultation Reponses

2.1 Tenants will all see their rents reduce by 1% each year for the next four years and this was broadly welcomed. However there was a good understanding of the impact this would have on the ability of the Council to manage and maintain existing stock and to build new council housing.

2.2 Most of the comments received at meetings and via responses to the websites concentrated on the proposal to convert some voids from social rent to affordable rent. This was a direct result of sensationalist headlines in the Express & Star claiming the Council was intending to put up rents by £15 per week.

2.3 At the meeting with WFTA and in their written response, the logic of having the same service charge for both electric and gas central heating was queried. The Council had proposed to make the service, maintenance and replacement of central heating fully recoverable by raising the service charge to £4 per week. This has been considered and the original proposal revised which will result in a reduction of £1 per week for those with electric heating and a 50p per week increase each year for the next four years for those with electrical heating.

2.4 In written responses from four of the five managing agents, all preferred to have their allowances frozen until 2020 then rising with inflation, rather than a 1% reduction each year to 2020 then rising with inflation plus 1%.

2.5 At the public meetings, 12 tenants attended the afternoon session and two attended the evening session. Once more the main concerns were around the Express & Start headline and the proposal to convert voids from social to affordable rent.

2.6 There were seven online responses to Wolverhampton Homes website, mostly focussing on the alleged £15 per week rent rise.

3.0 Consultation conclusions

3.1 In general the Council's approach to setting rents and service charges were acceptable. The proposals to increase the numbers of council new build units was welcomed.

The Housing Revenue Account

1. Local authorities are required by the Local Government and Housing Act (1989) to maintain a ring-fenced revenue account containing expenditure and income relating to their housing landlord service. This is known as the Housing Revenue Account (HRA).

2. Statute governs what may be charged and credited to the HRA, the underlying principle being that housing rents and service charges should only pay for the housing landlord service. In particular, it prevents cross subsidy of those income streams and others that the council receives, for example council tax. The main items which are shown in the HRA are:
    - Income from rents and lettings from dwellings and non-dwellings
    - Costs associated with maintaining the rental stock (but not improving it or the Decent Homes programme, which are capital budget items)
    - Costs and income associated with providing landlord services to tenants such as heating and concierge services
    - The net costs of providing Housing Support services including those to Homeless Families and Carelink as well as HRA feasibility work.

3. Authorities have a duty to prepare and make available to rent payers an annual budget for the HRA in advance of the year in question. The budget must identify how all planned expenditure is to be funded. This may include the use of retained surpluses from previous years, but the HRA must never go into an overall deficit.

4. In accordance with the council's financial procedure rules, the budget, rents and service charges must be approved by full council, which receives recommendations from the Cabinet.

Administration of the HRA at Wolverhampton

5. The Strategic Director of Housing has responsibility for the overall HRA budget, and administration

    - The council's Housing function, which manages central costs and recharges with the General Fund in conjunction with strategic Finance, as well as specialist housing services such as Homelessness and warden-supported dwellings.
    - Wolverhampton Homes and the Tenant Management Organisations who manage the rent collection, day to day maintenance and in the case of Wolverhampton Homes, the programme for maintaining properties at decent homes standard.

HRA Subsidy and Self-financing

6. Until April 2012, one of the key factors in the budget preparation process was the Government's annual HRA subsidy determination. HRA subsidy was a housing resource redistribution system administered by the Department for Communities and Local Government. Authorities either paid into or received money from a national pool, based on a formula that assessed their assumed need to spend and assumed income.

7. HRA subsidy was complex and difficult to predict, but had significant impacts on the funds available to an authority's HRA, which made it central to the budget process.

8. With effect from 1 April 2012, HRA subsidy was abolished. Instead of annual determinations, authorities paid or received a one-off settlement at the end of March 2012. This settlement was calculated as the net present value of forecast subsidy payments or receipts over the next 30 years. The final HRA subsidy payment was made in 2012/13.

9. As part of the self-financing process the government imposed a debt cap on the HRA, this being the higher of the Subsidy Capital Financing Requirement and the self-financing valuation. For Wolverhampton this means a debt cap of £356,770,000 which cannot be breached without approval from central government.

<u>Service Charges</u>

10. Service charges are intended to pay for the receipt of services over and above the provision of a standard dwelling, and not provided to all tenants. They should meet the full cost of providing the service in question, but never exceed it.

<u>HRA Contingency Reserve</u>

11. The contingency reserve is set aside for emergencies and other unforeseen expenditure, and is the minimum level below which the council does not allow its reserves to fall when preparing budgets and medium term forecasts. On 25 February 2012, the council approved the setting of the contingency reserve at 5% of gross HRA turnover (rounded to the nearest million pounds).

Appendix E

Risk Number	Category	Risk- cause/event	Impact of Risk	Probability of Risk (P) Score 1-5	Impact of Risk (I) Score 1-5	Score (PxI)	Red (R) Amber (A) Green (G)	Risk Control Measures	Owner	Review Period
1	Government Legislation	There are changes to Government policy that have in year service and budget impact.	Overspend against budget requiring either in year savings or use of housing revenue account balance.	4	5	20	R	• Monthly monitoring at service level and quarterly monitoring to Members. • Close monitoring of developing national position and reporting to Members.	Director of Finance	Quarterly
2	Income and Funding	Right to Buy sales are higher than forecast.	Less revenue will be received over the life of the plan than has been forecast.	3	4	12	A	• Prudent estimates of the level of Right to Buy sales are used in forecasting. • Review impact of new government policies • Weekly monitoring of sales	Director of Finance	Monthly
3	Income and Funding	Inflation rates are lower than budgeted for.	Rents cannot be raised as much as has been forecast.	2	5	10	A	• Prudent estimates of inflation rates are used in forecasting.	Director of Finance	Monthly
4	Income and Funding	General interest rates are higher than forecast.	If interest rates are higher than forecast there will be greater interest payments.	2	5	10	A	• Prudent estimate of interest rates are used in forecasting.	Director of Finance	Monthly
5	Income and Funding	Higher than anticipated bad debts.	Overspend against budget requiring either in year savings or use of housing revenue account balance.	3	3	9	A	• Robust debt collection and recovery mechanisms in place. • Monthly monitoring at service level and quarterly monitoring to Members. • Monitor effect of Universal Credit.	Strategic Director of Housing	Monthly

Appendix E

Risk Number	Category	Risk- cause/event	Impact of Risk	Probability of Risk (P) Score 1-5	Impact of Risk (I) Score 1-5	Score (PxI)	Red (R) Amber (A) Green (G)	Risk Control Measures	Owner	Review Period
6	Financial and Budget Management	Ineffective budget management.	Overspend against budget requiring either in year savings or use of housing revenue account balance.	2	4	8	A	• Monthly monitoring at service level and quarterly monitoring to Councillors.	Director of Finance	Monthly
7	Financial and Budget Management	The 30 year asset management plan is inaccurate.	Capital expenditure is not budgeted correctly.	2	4	8	A	• Close interrogation of information generated from asset management systems.	Strategic Director of Housing	Monthly
8	Financial and Budget Management	Treasury Management Activity, including increases in the cost of borrowing (e.g. LOBO loans being called) and/or reductions in the return on investments.	Overspend against budget requiring either in year savings or use of housing revenue account balance.	2	4	8	A	• Robust Treasury Management Strategy. • Established and experienced Treasury Management function. • Proactive approach to the management of the council's cash flow, on a daily basis, including seeking opportunities to take advantage of borrowing opportunities when interest rates are favourable and seeking to maximise returns on investment whilst effectively managing the risk associated with those investments. • External treasury management advisors who provide a proactive and timely service and advice.	Director of Finance	Daily

Appendix E

This report is PUBLIC –
[NOT PROTECTED]

Risk Number	Category	Risk- cause/event	Impact of Risk	Probability of Risk (P) Score 1-5	Impact of Risk (I) Score 1-5	Score (PxI)	Red (R) Amber (A) Green (G)	Risk Control Measures	Owner	Review Period
9	Financial and Budget Management	Loss of ICT facilities, e.g. due to failure of systems and/or disaster recovery arrangements or key personnel	Lack of robust financial information on which to monitor budgets, leading to in-year budget deficit requiring savings to be identified or the use of Housing Revenue Account balances	2	4	8	A	• ICT disaster recovery project and arrangements.	Head of ICT	Monthly
10	Financial and Budget Management	The HRA borrowing cap preventing the council from carrying out essential capital works.	Inability to borrow to fund capital projects results in delays or cancellations.	2	3	6	A	• Close monitoring of capital spend requirements and borrowing limits.	Director of Finance	Monthly
11	Income and Funding	Reduction to other income.	Overspend against budget requiring either in year savings or use of housing revenue account balance.	2	3	6	A	• As part of the 2016/17 budget process income budgets were reviewed and revised accordingly. • Monthly monitoring at service level and quarterly monitoring to Members.	Director of Finance	Monthly
12	Income and Funding	Stock Transfer without corresponding debt write off	Attributable debt remains without stock which provides income to repay this debt.	2	3	6	A	• Working with DCLG.	Strategic Director of Housing	Monthly

Appendix E

Risk Number	Category	Risk- cause/event	Impact of Risk	Probability of Risk (P) Score 1-5	Impact of Risk (I) Score 1-5	Score (PxI)	Red (R) Amber (A) Green (G)	Risk Control Measures	Owner	Review Period
13	Third Parties	Third parties and suppliers / contractors cease to trade or withdraw from the market.	Short term expensive solutions may be necessary. Requirements to undertake tender exercise. Increased ongoing cost due to reduced competition. Overspend against budget requiring either in year savings or use of housing revenue account balance.	1	4	4	A	• Departments using external service suppliers work closely with them and are kept abreast of their service and business situation. At worst this gives the council notice of emerging problems. • Monthly monitoring at service level and quarterly monitoring to Members. • SCP uses 2 different contractors.	Budget Holders	Monthly
14	Income and Funding	Lower than anticipated levels of capital funding through receipts and grants.	Capital schemes are cancelled or delayed or have to be funded from revenue budgets and/or prudential borrowing resulting in an over spend against budget requiring either in year savings or use of housing revenue account balance.	2	2	4	A	• The capital programme is actively and closely managed and when so doing expenditure and income streams are continuously monitored. • Quarterly monitoring to Members.	Director of Finance	Monthly
15	Financial and Budget Management	Non pay inflation increase insufficient.	Overspend against budget requiring either in year savings or use of housing revenue account balance.	1	2	2	G	• Monthly monitoring at service level and quarterly monitoring to Members.	Director of Finance	Monthly

Appendix E

Risk Number	Category	Risk- cause/event	Impact of Risk	Probability of Risk (P) Score 1-5	Impact of Risk (I) Score 1-5	Score (PxI)	Red (R) Amber (A) Green (G)	Risk Control Measures	Owner	Review Period
16	Service Demands	Increased demand for services including the impact of social and demographic pressures on demand for services.	Overspend against budget requiring either in year savings or use of housing revenue account balance.	1	2	2	G	• As part of the 2016/17 budget process budgets were reviewed and revised accordingly taking account of known and anticipated increases in demand. • Monthly monitoring at service level and quarterly monitoring to Members.	Budget Holders	Monthly
17	Financial and Budget Management	Pay award greater than budgeted.	Overspend against budget requiring either in year savings or use of Housing Revenue Account balance.	1	1	1	G	• Monthly monitoring at service level and quarterly monitoring to Members.	Director of Finance	Monthly