FOR PUBLICATION

HOUSING REVENUE ACCOUNT – BUDGET 2015/16 TO 2020/21 (H000)

MEETING:	1. CABINET 2. CABINET MEMBER FOR HOUSING
DATE:	1. 23 FEBRUARY 2016 2. 15 FEBRUARY 2016
REPORT BY:	HOUSING SERVICE MANAGER – BUSINESS PLANNING AND STRATEGY CHIEF FINANCE OFFICER
WARD:	ALL
COMMUNITY ASSEMBLIES:	ALL
KEY DECISION REFERENCE (IF APPLICABLE):	580

FOR PUBLICATION

1.0 PURPOSE OF REPORT

1.1 To consider the probable outturn for the current financial year.

1.2 To consider the draft budget for 2016/17.

2.0 RECOMMENDATIONS

2.1 That the probable outturn for the current financial year be considered.

2.2 That the draft estimates for 2016/17 be considered.

2.3 That the “Growth Items” at Annexe 6 of **Appendix A** be approved.

2.4 That further work is undertaken to identify actions required (as highlighted at paragraph 6.6) which will return the working balance for 2017/8 onwards to acceptable levels and that the findings are reported back as part of the HRA 30 Year Business Plan Report.

3.0 **BACKGROUND**

3.1 The Council is required to keep a separate Account for its activities as a housing landlord. This is called the Housing Revenue Account (HRA). The HRA is closely governed by the Local Government and Housing Act 1989 and by Determinations made under this Act by DCLG.

3.2 As a result of the introduction of self-financing the Council is required to produce a 30 year HRA Business Plan that is financially viable, that delivers reasonable standards for tenants and maintains at least the minimum Decent Homes Standard.

3.3 Self-financing has, in the main, improved the financial position of the HRA. We can determine our own financial future and can also borrow to finance improvements within the constraints imposed by the Government (e.g. the £156 million debt ceiling). In essence all financial risk in respect of the HRA has been transferred to the Council from Central Government.

3.4 However, despite this self-financing settlement agreement, in the Government's Summer Budget on the 8 July 2015, the Chancellor of the Exchequer announced a series of proposals as part of the Welfare Reform and Work Bill and the Housing and Planning Bill that will, together with various factors including condition of the stock, timing of investment, type and duration of future loans, impact on the financial viability of the HRA Business Plan. These policies include:

- Freeze on working age benefits, including the Local Housing Allowances for 4 years from 2016/17.
- Removal of automatic entitlement to housing support for new claims in Universal Credit from 18-21 year olds who are out of work, from April 2017.
- Reduce rents in social housing by 1% for 4 years from April 2016 (except for sheltered housing schemes where the rent reduction has been delayed for a year and instead the old CPI + 1% formula can be applied).
- Make a payment to the Government reflecting the market value of high value housing likely to become vacant during the year, which may require the disposal of 'high value assets'.
- Tenants with household incomes of £30,000 and above will be required to "Pay to Stay" by paying a market rent, with the difference being paid to the Treasury.
- A review of lifetime tenancies, to limit their use and ensure that households are offered tenancies that match their needs and ensure the best use is made of the social housing stock.

3.5 On 26 January 2016, the Cabinet considered the rent and service charge levels for 2016/17 and agreed a rent reduction of 1% (based on the latest Government policy highlighted above) and various service charge increases. These changes have been built into the 2016/17 budget forecast, with the exception of the Sheltered Housing rents where a CPI + 1% increase has been assumed.

4.0 INFORMATION INCLUDED

4.1 The following information is attached:

- Annexe 1 Statutory HRA Operating Account (Summarised)
- Annexe 2 Detailed estimates for supervision and management and General Fund contributions.
- Annexe 3 Subjective Analysis.
- Annexe 4 Variances – This year's original estimate to revised.
- Annexe 5 Variances – This year's original to next year's original.

4.2 The draft estimates have been prepared on the following assumptions;

- Pay award of 1% for each of the years 2016/17 to 2020/21.
- Provision for inflation on DLO contracts in accordance with the RICS Building Cost Index.
- Gas & Electricity inflation of 3% in 2016/17 and then 5% thereafter.
- Rates 2% increase in 2016/17 and then 3% thereafter.
- Retail Price Index 2% in 2016/17 and then 3% thereafter.
- Consumer Price Index 1% in 2016/17 and then 2% thereafter.
- Rent & Service Charge increases per paragraph 3.5.

5.0 FINANCIAL POSITION AT YEAR END 2015/16

5.1 On the basis of existing policy and the assumptions already outlined HRA balances for this year are estimated as follows;

HRA Balances

	Original Estimate	Revised Estimate	(Increase) Decrease
	£000	£000	£000
Balance at 1.4.15 - Surplus	(15,921)	(18,026)	(2,105)
Decrease/(Increase) in HRA balance for year	4,991	1,581	(3,410)
Estimated Balance 31.3.16	(10,930)	(16,445)	(5,515)

5.2 The probable outturn includes the following approved additions to the 2015/16 estimate.

5.3 **Carry Forward from 2014/15**

	Amount (£)
Information Technology – Balance of Approved Growth	42,740
Careline Consortium – Setting Up Costs	50,000
Improvements to Reception at the On the Move shop	10,000
IT for Mobile Working for Asset Management Officers	10,000
HRA Contribution to Upgrade of Document Man System	50,000
Disabled Persons Scooter Storage	72,000
Total	234,740

5.4 It should be noted that the forecast share of the DLO net surplus (£100,000) has been included in the budget. This is lower than in previous years due to a combination of factors including low inflation allowances on the main Repair & Maintenance contract and an increase in overhead costs due to Health and Safety legislation.

5.5 All variations are detailed in Annexe 4 of **Appendix A**, which shows an in-year increase in the HRA balance of £3,410,040 from the original to revised estimate. The majority of the variation relates to the capital programme, where an underspend has reduced the need for direct revenue funding by £3,713,740.

6.0 FINANCIAL STRATEGY 2016/17

6.1 The financial strategy for the HRA is to deliver a balanced and sustainable budget which is self-financing in the longer term and which reflects both the requirements of tenants and the strategic vision and priorities of the Council.

6.2 It cannot run at an overall deficit and risks will be identified and managed effectively. From 2016/17 onwards there are a number of implications arising from the new Welfare Reform and Work Bill, Housing and Planning Bill and the announcements in the Comprehensive Spending Review that will have a significant impact on the Housing Revenue Account. These are briefly detailed at paragraph 3.4 and will be covered in a detailed report on the 2016/17 onwards Housing Revenue Account Business Plan which will be brought to Cabinet in March.

6.3 The implications arising from these changes have been considered and this report includes the estimated impact of the following:

- The 1% rent reduction, which is estimated to equate to a loss of £10 million income over the 4 year period from 2016/17 to 2019/20.

- The introduction of Universal Credit to all claimants from April 2016. As this will be paid direct to claimants on a four weekly basis in arrears it is anticipated that there will be an increase in rent arrears (including both current and former tenant arrears). Based on evidence from other areas that have trialled the new system it is considered prudent to increase the bad debts provision on a staged basis, peaking at a loss of 8% rental income in 2017/18 and then falling back to 5% as collection rates are improved. This provision can be revisited when we have more experience of the new regime. This provision also provides some mitigation against increased arrears due to the charging of a market rent for households with income over £30,000, as it is anticipated that local authorities will need to stand the debt and not the Treasury who will receive the additional rental income.

6.4 The impact of the other policy changes are difficult to account for in the budget with any degree of accuracy at this stage. These will be modelled in the 2016/17 HRA 30 Year Business Plan as detailed information of individual Government policies becomes available.

6.5 The HRA Summary Operating Account at Annexe 1 shows the financial implications of the changes listed at paragraph 6.3. The HRA balance falls to £1,794,601 in 2017/18 (which is below the agreed £3 million minimum working balance) and by 2020/21 there is a negative balance of £9,893,079.

6.6 Clearly this position is not financially viable and measures to improve the position are urgently required. The following are a range of options that are currently being considered:

- Additional borrowing up to the debt cap of £155.6 million to replace direct revenue funding.
- New contracts to include inflationary increases based on CPI rather than RPI.
- A review of the way that the Council delivers the repair and maintenance programme to housing stock, to deliver efficiencies and reductions in the responsive repairs budget.
- The sale of the HRA land at Linacre to provide additional resources to fund the provision of a small amount of new build housing within the HRA capital programme and reduce revenue contributions. This could release £6.6 million to the HRA over 3 years from 2017/18.
- A review of the voluntary repayment of debt policy, currently £2 million per annum.
- Further re-phasing of work within the capital programme. This has already been done to some extent as part of the HRA Capital Programme report considered by Cabinet on 23 February 2016 and is already incorporated into this report.

6.7 The updated HRA Business Plan will help inform these decisions. A new 2016/17 and onwards Business Plan is currently being prepared, and will be brought to a future meeting for consideration. This report is likely to recommend that;

- the Business Plan is reviewed and updated on a regular basis
- that an Officer and Member Steering Group (in consultation with a tenant sub group) be established to oversee these reviews and make recommendations on further efficiencies and changes to policy and;
- that further reports be brought to Members regularly to highlight any future action required.

7.0 INITIAL BUDGET FORECAST 2016/17

7.1 The table below summarises the financial position for 2016/17.

HRA Balances

	Original Estimate
	£000
Balance at 1.4.16 - Surplus	(16,445)
Decrease/(Increase) in HRA balance for year	6,763
Estimated Balance 31.3.17	(9,682)

7.2 Many factors contribute to the projected decrease in the HRA Balance for the year in 2016/17 of £6,763,080 and these are detailed in Annexe 5 of **Appendix A** The majority of the variance relates to the loss of income following the introduction of Universal Credit from April 2016 and the 1% reduction in rents.

7.3 RISK MANAGEMENT

There are a number of significant risks inherent in any budget forecasting exercise and the risk increases as the period covered increases. The key budget risks for the HRA are detailed below:

- The impact of Welfare Reforms/Universal Credit.
- Ability to deliver the re-phased Capital Programme and maintain decent homes standard.
- That currently retained 1-4-1 RTB receipts may have to be repaid to the Treasury if a new build programme within the HRA is not affordable.
- The ability to maintain a minimum working balance of £3 million.
- Future economic changes (e.g. interest and inflation rates).

8.0 **GROWTH REQUESTS**

8.1 Attached at Annexe 6 is a schedule of priority growth requests, with a total value of £58,460 in 2016/17 (which includes a one-off of £15,000) and £79,920 recurring annually from 2017/18. There are sufficient revenue resources to finance these items in 2016/17, but they are only affordable after that date if measures are taken to improve the viability of the HRA as highlighted in paragraph 6.6.

9.0 **EQUALITIES IMPACT ASSESSMENT (EIA)**

9.1 The budget process and forecasts produced do not require an EIA but any decisions to vary budgets and service provision may require EIA's specific to those options.

10.0 **RESOURCE IMPLICATIONS**

10.1 In writing this report, the standard corporate issue of revenue financial implications has been considered at Sections 6 to 9 above.

11.0 **RECOMMENDATIONS**

11.1 That the probable outturn for the current financial year be considered.

11.2 That the draft estimates for 2016/17 be considered.

11.3 That the "Growth Items" at Annexe 6 of **Appendix A** be approved.

11.4 That further work is undertaken to identify actions required (as highlighted at paragraph 6.6) which will return the working balance for 2017/18 onwards to acceptable levels and that the findings are reported back as part of the HRA 30 Year Business Plan Report.

12.0 **REASONS FOR RECOMMENDATION**

12.1 To enable the Council to set the HRA budget for 2016/17.

12.2 To continue with the financial strategy contained in the Housing Revenue Account Business Plan and self-financing debt settlement arrangements.

ALISON CRAIG
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You can get more information about this report from Steven Spencer on Tel: 345454.

Officer recommendation supported. Signed: T. Murphy Cabinet Member Date: 15 February 2016