For Publication

Housing Revenue Account (HRA) – Budget 2017/18 to 2021/22 (CC000)

Meeting:	Cabinet
Date:	21 February 2017
Cabinet Portfolio:	Customers & Communities
Report by:	Director of Finance & Resources Housing Manager

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 2017/18.

2.0 Recommendations

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

2.2 That the draft estimates for 2017/18 and future years be considered.

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

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 March 2016 the "Welfare Reform and Work Act 2016" introduced rent policy within legislation for the first time. This 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. The main policy is a 1% reduction in social housing rents for 4 years from April 2016.

3.5 On 24 January 2017, Cabinet considered the rent and service charge levels for 2017/18 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 2017/18 budget forecast.

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.
- Annexe 6 Growth Items

4.2 The following budget assumptions have been used to produce the draft Housing Revenue Account budgets.

- Pay award of 1% for each of the years 2017/18 to 2021/22.
- Utilities inflation of 2% in 2017/18 and then 3% thereafter.
- Rates 2% increase in 2017/18 onwards
- Retail Price Index 1.9% in 2017/18 and then 2% thereafter.
- Consumer Price Index 1.5% in 2017/18 and then 2% thereafter.
- Rental income is increased annually by CPI after the end of the 4 year 1% reduction.

5.0 Financial Position at Year End 2016/17

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
	£000	£000
Balance at 1.4.16 - Surplus	(16,445)	(20,471)
Decrease/(Increase) in HRA balance for year	6,822	(2,413)
Estimated Balance 31.3.17	(9,623)	(22,884)

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

5.3 Carry Forward from 2015/16

	Amount (£)
Information Technology – Balance of Approved Growth	42,740
Careline Consortium – Setting Up Costs	31,380
Estate Improvements Work	9,220
Tenant Handbook	35,000
IT for Mobile Working for Asset Management Officers	10,000
Training for Contract Management Team	8,460
Temporary Data Administrative Officers	53,070
HRA Contribution to Upgrade of Document Man System	50,000
Disabled Persons Scooter Storage	72,000

Total	311,870

5.4 All variations are detailed in Annexe 4 of **Appendix A**, which shows a change from the original budget, which forecast a reduction in the HRA balance of £6,821,540, to the revised budget which shows an increase in the HRA balance of £2,413,400. This is a difference of £9,234,940. The majority of the variation relates to the capital programme, where an underspend has reduced the need for direct revenue funding by £9,005,100.

6.0 Financial Strategy 2017/18

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 2017/18 onwards there are a number of implications arising from the "Welfare Reform and Work Act 2016" and the introduction of Universal Credit to all claimants that will have a significant impact on the Housing Revenue Account.

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 November 2017. This will be paid direct to claimants, four week in arrears, meaning that the responsibility for the payment of rent to the council will lay with the tenant. In addition Universal Credit will be paid on a 52 week basis, meaning that when a tenant receives their payment, they will have insufficient monies to cover all of the rent due, as the council currently collects rent on a 48 week basis. To reduce the impact of rent arrears cabinet of 24 January 2017 agreed that from no later than 1 April 2018, the council moves from collecting rent on a 48 week basis to a 52 week basis (following consultation with tenants).

However, despite this change to rent collection it is still anticipated that there will be an increase in rent arrears written off. Based on limited evidence from other areas that have trialled Universal Credit it is considered prudent to increase the bad debts provision to 6% for 2017/18 and 2018/19 and then reduce to 5% in 2019/20 and 4% for 2020/21 onwards as collection rates are improved. This provision can be revisited when we have more experience of the new regime.

6.4 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 £18,485,746 in 2017/18 and by 2021/22 the balance has fallen further to £1,553,036.

6.5 Although the forecasts for future years are much healthier than previously reported it is important to note that they assume that a range of measures to improve the financial viability of the HRA Business Plan are successfully implemented. These measures have been agreed by a Steering Group established to consider the implications for the HRA Business Plan following national housing policy changes. The Steering Group have been involved in both the financial review of the HRA and also the review of repairs and maintenance. In December 2016 they recommended a series of actions to mitigate the worsening financial position of the HRA. These included:

- A £500,000 reduction in the responsive repairs budget in 2017/18 and each of the following 2 years, after which inflation will be increased by CPI.
- A reduced and rephased capital programme. This can be seen in this budget report by the reduced requirement for direct revenue financing of capital expenditure.
- Change to a 52 week rent year to match with the payment of Universal Credit, which aims to reduce rent arrears. As a result the allowance for bad debts has been reduced from 6% in 2017/18 and 2018/19, to 5% in 2019/20 and then 4% in 2020/21 as collection rates improve.
- The provision for rental income lost whilst properties are void has been reduced to reflect a reduction in the time that a property is empty or with OSD for any necessary repairs. This provision has been reduced from the previous assumption of 4.2% to 3.5% in 2018/19,

3% in 2019/20, 2.5% in 2020/21 and then 2% from 2021/22 onwards.

It is important to note that the budget projections shown in this report assume that all the above measures are successful. Therefore, there is the risk that the HRA balances may be lower than forecast if any of the above actions are not as successful as hoped. It should also be noted that whilst these measures have returned the HRA Operating Account to an overall surplus for the period under review, there is a still a forecast in-year deficit for each of the years from 2017/18 onwards. An updated HRA Business Plan report detailing how we will achieve these mitigating actions will be presented to Cabinet in the spring.

6.6 The budget forecast does not take any account at this stage of the Government's requirement for local authorities with a Housing Revenue Account to "make a payment to the Government for each financial year reflecting the market value of high value housing likely to become vacant during that year less costs, whether or not receipts are realised". This is because it is still unclear what is classed as high value for the Chesterfield area. As well as the payment to the Treasury in respect of these high value assets, there is the problem of ongoing annual rent loss and a reduced number of family homes. As more information becomes available the financial implications of this policy can be included in the HRA budget.

7.0 Initial Budget Forecast 2017/18

7.1 The table below summarises the financial position for 2017/18.

HRA Balances

	Original Estimate
	£000
Balance at 1.4.17 - Surplus	(22,884)
Decrease/(Increase) in HRA balance for year	4,398
Estimated Balance 31.3.18	(18,486)

7.2 All variations are detailed in Annexe 5 of **Appendix A**, which shows a change from the original 2016/17 budget, which forecast a reduction in the HRA balance of £6,821,540, to the original 2017/18 budget which shows a decrease in the HRA balance of £4,398,340. This is a difference of £2,423,200. The majority of the variation relates to the capital programme, where a rephasing of schemes has reduced the need for direct revenue funding.

8.0 Risk Management

8.1 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 decency.
- That retained 1-4-1 RTB receipts may have to be repaid to the Treasury if the new build programme within the HRA is not financially viable.
- The implications of returning receipts to the Government from the disposal of high value assets.
- That rents are not allowed to increase by CPI (our budget assumption) after the end of the 4 year period of the 1% reductions.
- Maintain a minimum working balance of £3 million.
- Future economic changes (e.g. interest and inflation rates).

9.0 Growth Requests

9.1 Attached at Annexe 6 is a schedule of priority growth requests, with a value of £98,760 in 2017/18 (which includes a one-off of £80,000) and £18,760 recurring annually. There are sufficient revenue resources to finance these items.

10.0 Equalities Impact Assessment (EIA)

10.1 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.

11.0 Resource Implications

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

12.0 Recommendations

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

12.2 That the draft estimates for 2017/18 and future years be considered.

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

13.0 Reasons for Recommendations

13.1 To enable the council to set the HRA budget for 2017/18.

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

Glossary of Terms	
HRA	Housing Revenue Account
DCLG	Department for Communities & Local Government
CPI	Consumer Price Index

Decision information

Key decision number	**690**
Wards affected	**All**
Links to Council Plan priorities	To improve the quality of life for local people and to provide value for money services.

Document information

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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
None.	

Annexes to the report	
Annexe 1	Statutory HRA Operating Account
Annexe 2	Detailed estimates for supervision & management
Annexe 3	Subjective analysis
Annexe 4	Variances – this year's original estimate to revised
Annexe 5	Variances – this year's original estimate to next year's
Annexe 6	Growth Items