For Publication

Housing Revenue Account (HRA) – Budget 2018/19 to 2022/23 (HC000)

Meeting:	Cabinet Council
Date:	20 February 2018 22 February 2018
Cabinet Portfolio:	Cabinet Member for Homes & Customers
Report by:	Director of Finance & Resources Assistant Director - Housing

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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 2018/19.

2.0 Recommendations

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

2.2 That the draft estimates for 2018/19 and future years be considered.

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 The introduction of Universal Credit in Chesterfield to all claimants from November 2017 is expected to result in an increase in rent arrears being written off. This is because payment is being made direct to claimants 4 weeks in arrears and the responsibility for the payment of the rent to the Council now lies with the tenant. As a result the bad debts provision has been increased to 8% in 2018/19, the first full year of the change.

3.6 On 9th January 2018, Cabinet considered the rent and service charge levels for 2018/19 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 2018/19 budget forecast.

3.7 The budget forecast also includes the implications of the recent stock condition survey where one of the main findings was that there was less work than previously assumed to the non-traditional housing stock. This has resulted in £20 million less expenditure in the short term, which has been one of the major factors in improving the overall viability of the HRA Business Plan.

4.0 Information Included

4.1 The following information is attached:

- Annexe 1 Statutory HRA Operating Account (Summarised)
- Annexe 2 Detailed estimates for supervision & 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 following budget assumptions have been used to produce the draft Housing Revenue Account budgets.

- Pay award of 2% for each of the years 2018/19 to 2022/23.
- Utilities inflation of 3.5% in 2018/19 and then 3% thereafter.
- Rates 3.7% increase in 2018/19, 3.5% in 2019/20 and then 3% thereafter.

- Retail Price Index 3.5% in 2018/19 and then 3% thereafter.
- Consumer Price Index 2.3% in 2018/19 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 2017/18

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 1.4.17 - Surplus	(22,884)	(24,977)
Decrease/(Increase) in HRA balance for year	4,497	784
Estimated Balance 31.3.18	(18,387)	(24,193)

5.2 The probable outturn includes the following approved additions to the 2017/18 estimate.

5.3 Carry Forward from 2016/17

	Amount (£)
Information Technology – Balance of Approved Growth	33,240
Careline Equipment	14,140
Estate Improvements Work	79,900
Tenant Handbook	35,000
IT for Mobile Working for Asset Management Officers	10,000
Training for Contract Management Team	10,100
Information Technology – Northgate Leaseholder Module	12,400

Disabled Persons Scooter Storage	72,000
Total	266,780

5.4 During the year it was necessary to increase the repairs budget by £282,000 to fund electrical testing (EICR – Electrical Inspection Condition Reports) to ensure that Council properties are electrically safe. This was funded by transferring the relevant amount from the electrical rewires capital budget under the authority delegated to the Assistant Director – Housing as part of the approval of the 2017/18 HRA Capital Programme in February 2017.

5.5 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 £4,497,100, to the revised budget which shows a reduction in the HRA balance of £784,250. This is a difference of £3,712,850. The majority of the variation relates to the capital programme, where an underspend (due to delayed starts on Barrow Hill as a result of Highways issues, New Build and the Sheltered Scheme Conversion as a result of supply issues in the market) has reduced the need for direct revenue funding by £3,965,780.

6.0 Financial Strategy 2018/19

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. On 3rd May 2016 Cabinet approved a series of strategy and policy changes to mitigate the impact of national housing policy on the long term viability of the HRA, including the 1% rent reduction for a 4 year period commencing in April 2016.

6.3 A Steering Group was established in July 2016 comprised of cross party elected members, officers and tenants. In December 2016 they presented a series of recommendations to the Corporate Cabinet and Corporate Management Team to mitigate the then worsening position of the HRA. These included:

- A £500,000 reduction in the annual responsive repairs budget in 2017/18, 2018/19 and 2019/20, after which the reduced budget will be increased annually by inflation based on the CPI. This was approved by Cabinet on 21st February 2017.
- A reduced and rephased capital programme. This was approved by Cabinet on 21st February 2017.
- Moving rent collection from a 48 week basis to a 52 week basis to mirror the payment of Universal Credit to claimants. This was approved by Cabinet on 24th January 2017 and will take place from 1st April 2018.
- Taking action to reduce income lost through bad debts (rent arrears) and having properties stood empty (voids).

6.4 However, despite the change to a 52 week rent collection basis it is still anticipated that there will be an increase in bad debts (rent arrears written off) as a result of the introduction of Universal Credit. Accordingly, the bad debts provision has been increased to 8% in 2018/19, reduced to 6% in 2019/20, then 5% in 2020/21 and then to 4% from 2021/22 onwards as collection rates are improved. This provision can be revisited when we have more experience of the new regime.

6.5 It is important to note that the budget projections shown in this report assume that all the measures highlighted in paragraph 6.3 are successful. Therefore, there is the risk that the HRA balances may be lower than forecast if any of the actions are not as successful as hoped. The HRA Summary Operating Account at Annexe 1 includes the financial implications of the changes listed at paragraph 6.3 and shows that the HRA balance is anticipated to fall to £18,632,757 in 2018/19 and by 2022/23 has fallen to £12,169,107.

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, however at this stage the Government have indicated that this policy is not likely to be introduced before 2019/20.

7.0 Initial Budget Forecast 2018/19

7.1 The table below summarises the financial position for 2018/19.

HRA Balances

	Original Estimate
	£000
Balance at 1.4.18 - Surplus	(24,193)
Decrease/(Increase) in HRA balance for year	5,560
Estimated Balance 31.3.19	(18,633)

7.2 All variations are detailed in Annexe 5 of **Appendix A**, which shows a change from the original 2017/18 budget, which forecast a reduction in the HRA balance of £4,497,100, to the original 2018/19 budget which shows a decrease in the HRA balance of £5,560,200. This is a difference of £1,063,100. The majority of the variation relates to the 1% reduction in rental income coupled with the increase in the provision for bad debts arising from Universal Credit.

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 Universal Credit on bad debts.
- 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 completed as planned.
- The implications of returning receipts to the Government from the disposal of high value assets.
- Any future limits on rent increases (our budget assumption is that rents rise by CPI from April 2020).
- Maintain a minimum working balance of £3 million.
- Future economic changes (e.g. interest and inflation rates plus the impact of Brexit).

9.0 Growth Requests

9.1 There are no growth requests to consider.

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 2018/19 and future years be considered.

13.0 Reasons for Recommendations

13.1 To enable the council to set the HRA budget for 2018/19.

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	**777**
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