

 <b>Executive: 30<sup>th</sup> November 2016</b>		<b>Agenda Item No. 4</b>
<b>Title</b>	Housing Revenue Account (HRA) budgets latest 2016/17 and base 2017/18	
<b>For further information about this report please contact</b>	Mike Snow – Head of Finance 01926 456800 Andrew Rollins – Principal Accountant 01926 456803 Bill Hunt – Deputy Chief Executive 01926 456014	
<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	Executive 2 November 2016 – Budget Monitoring to 30 September 2016	
<b>Background Papers</b>	Executive 27 July 2016 – Budget Review to 30 June 2016; Executive 28 September 2016 – Fees and Charges 2017/18;	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan? (If yes include reference number)</b>	Yes Ref 700
<b>Equality &amp; Sustainability Impact Assessment Undertaken</b>	No

<b>Officer/Councillor Approval</b>		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	14 <sup>th</sup> Nov	Bill Hunt
Head of Service	14 <sup>th</sup> Nov	Mike Snow
CMT	14 <sup>th</sup> Nov	
Section 151 Officer	14 <sup>th</sup> Nov	Mike Snow
Monitoring Officer	14 <sup>th</sup> Nov	Andrew Jones
Finance	14 <sup>th</sup> Nov	Andrew Rollins
Portfolio Holder(s)	14 <sup>th</sup> Nov	Councillor Phillips
<b>Consultation Undertaken</b>		
None		
<b>Final Decision?</b>	Yes	

## **1. Summary**

- 1.1 This report presents the latest projections for Housing Revenue Account (HRA) 2016/17 Budget and the Base Budget proposals for 2017/18. The budget proposals for 2017/18 assume that Council rents will continue to have been reduced by 1% in accordance with the Government's revised HRA rent policy, implemented in July 2015. It does not commit to any other rent changes as a HRA Rent Setting report will be presented to members in February 2017.

## **2. Recommendations**

- 2.1 That Executive recommends to Council the 2017/18 base revenue budget for Housing Revenue Account Services, as set out Appendix A
- 2.2 That Executive notes the latest revenue budget position for Housing Revenue Account Services in respect of the 2016/17 budget, as set out at Appendix A;

## **3. Reasons for the Recommendations**

- 3.1 This report recommends the base budget requirements that will be used in the process of setting Council Housing Rents for 2017/18, which will be presented to members in February 2017. These figures reflect the costs of maintaining the current level of service plus any unavoidable changes in expenditure (for example, where the Council is contractually or statutorily committed to incur additional expenditure).
- 3.2 The report also considers the current year's budget, and includes details of proposed updates to the 2016/17 Budget. Any future changes that emerge over the coming months will be fed into the February report, ensuring that the implications for the 2017/18 base budget are considered and the Council is in a position to agree the 2017/18 Budget and the Council Housing Rents for the year.

## **4. Policy Framework**

### **4.1 Framework**

The Housing Revenue Account (HRA) latest budget 2016/17 and base budget 2017/18 report forms part of the Budgetary Framework for implementing Fit for the Future. This report is in accordance with the Council's Financial Strategy as last approved by the Executive in February 2016.

### **4.2 Fit For the Future**

A key element of Fit for the Future is ensuring that the Council achieves the required savings to enable it to set a balanced General Fund Budget whilst maintaining service provision. The Housing Revenue Account is subject to the same regime to ensure efficiency within the service and value for money for tenants.

### **4.3 HRA Business Plan**

- 4.3.1 Under the 'Self Financing' regime the HRA has taken on a significant debt of £136.2m, but, with it the potential to generate surpluses that could be used to provide new homes and/or invest in HRA services and the existing stock. The HRA Business Plan projects income and expenditure over 50 years to demonstrate the ability to repay the debt, maintain the housing stock and provide new homes. The base budget for 2017/18 is calculated from the projections contained in the latest HRA Business Plan.
- 4.3.2 However, the Business Plan will need to be reviewed as the detailed provisions contained within the Housing and Planning Act are implemented. There is still considerable uncertainty as to when these changes will come into force or, indeed whether they will be implemented as originally envisaged. The Act currently contains a number of policy changes that will impact on the capacity of the HRA to support and develop the Council's landlord service. If possible, these changes will be incorporated into the 2017/18 Budget when it is reviewed in the February report.

### **4.4 Rent Policy**

- 4.4.1 The 'base' housing rents for 2017/18 are based upon the revised Government rent policy that was introduced for 2015/16 onwards and later amended in July 2015. Increases in rent will only apply to void properties. For existing tenants rents will be reduced by 1% in 2017/18.
- 4.4.2 The changes introduced for 2015/16 increased social rent each year for ten years by the September CPI + 1%. However, in July 2015 the Government announced that with effect from April 2016, the rents charged by local authorities should instead be reduced by 1% per year, for four years.
- 4.4.3 However, the Council is able to set the base rent at the Target Social Rent (also known as Formula Rent) when a property becomes empty. This represents an increase over the social rent charged by the Council to tenanted properties but the rent set must then be reduced by 1% when the property is re-let to comply with the Government policy.
- 4.4.4 Details for 2017/18 Council Housing Rents, including rents for the Council's shared ownership homes, garages and for services charges for tenants and leaseholders will be set out in the February report to Executive and Council. At this point no decisions have been made. This Base Budget report merely presents a base rent budget in line with the current Business Plan expectation of following Government rent guidance.

## **5 Budgetary Framework**

- 5.1 The report is broken down into the following sections and appendices:

Section 9	2017/18 Base Budgets
Section 10	2016/17 Latest Budgets
Appendix 'A'	HRA 2016/17 Latest Budget and 2017/18 Base Budget.

5.2 The proposed 2017/18 Base Budgets and 2016/17 Latest Budgets are shown below. More detail is given in Appendix 'A'.

	<b>Original Budget 2016/17 £</b>	<b>Latest Budget 2016/17 £</b>	<b>Base Budget 2017/18 £</b>
Supervision & Management - General	2,698,500	2,848,600	2,822,700
Supervision & Management - Special	2,251,900	2,212,200	2,250,400
<b>Supervision &amp; Management Sub-total</b>	<b>4,950,400</b>	<b>5,060,800</b>	<b>5,073,100</b>
Premises	6,353,400	6,664,900	6,004,300
Supplies and Services	455,900	455,900	455,900
Capital Charges	3,171,500	3,465,900	3,465,900
<b>TOTAL EXPENDITURE</b>	<b>14,931,200</b>	<b>15,647,500</b>	<b>14,999,200</b>
Housing Rents	(25,603,000)	(25,603,000)	(25,347,000)
Other Income	(1,449,300)	(1,449,700)	(1,294,700)
<b>TOTAL INCOME</b>	<b>(27,052,300)</b>	<b>(27,052,700)</b>	<b>(26,641,700)</b>
<b>NET INCOME FROM SERVICES</b>	<b>(12,121,100)</b>	<b>(11,405,200)</b>	<b>(11,642,500)</b>
Other Operational Expenditure / Income	4,412,300	4,412,300	4,412,300
<b>NET OPERATIONAL INCOME</b>	<b>(7,708,800)</b>	<b>(6,992,900)</b>	<b>(7,230,200)</b>
Financing and Reserve Funding Adjustments	3,169,100	2,982,100	2,814,900
Contribution to HRA Capital Investment Reserve	4,525,800	3,996,900	4,390,100
<b>Transfer to HRA Balance</b>	<b>(13,900)</b>	<b>(13,900)</b>	<b>(25,200)</b>

5.3 Section 9 of this report considers in more detail the 2017/18 Base Budgets, Section 10 covers the 2016/17 Latest Budgets.

5.4 The Housing Revenue Account, (HRA), is a statutory account which itemises all of the income, expenditure and capital charges relevant to the Council's landlord function as a provider of social housing.

5.5 Current Base Budgets for this account show a surplus of £25,200 for 2017/18. This is simply the amount added to HRA balances to maintain the real value of this working capital after allowing for estimated general inflation.

5.6 In addition £4.4m is transferred to the HRA Capital Investment Reserve to fund future capital investment. This has increased from £3.9m transferred in 2016/17, driven primarily by a reduced painting and decorating programme being required – see section 9.3.1.

- 5.7 Appendix 'A' highlights the main changes to the 2 years proposed budgets, along with explanations for variations.
- 5.8 'Supervision and Management' - totalling £5.0m for 2017/18, as shown in the table above - is an integral part of the HRA. 'Supervision and Management' budgets are shown in Appendix 'A'.
- 5.9 'Supervision and Management - General' includes central services applicable to all tenants, such as rent collection, tenancy management and tenant participation.
- 5.10 'Supervision and Management - Special' consists of the provision of services to specific groups of tenants, such as Warwick Response and Housing Support services, together with caretaking and communal lighting in blocks of flats.
- 5.11 For the setting of base 2017/18 revenue budgets, no inflation has been added other than where contracted or unavoidable. This is consistent with the approach for General Fund Services.
- 5.12 The HRA balance is maintained at a working balance of £1.4m, increased by inflation each year to preserve the real value. Any additional resources generated in year are transferred to the HRA Capital Investment Reserve, to allow future investment in the service, including the provision of new homes.
- 5.13 The proposed 2016/17 Latest Budget allows a contribution of £4m into the HRA Capital Investment Reserve, whilst retaining a working balance of £1.4m on the HRA.
- 5.14 The proposed 2017/18 Base Budget allows a contribution of £4.4m into the HRA Capital Investment Reserve, whilst retaining a working balance of £1.4m on the HRA.
- 5.15 Housing Rents for 2017/18 will be decided by Council in February 2017, taking into account the requirements laid down by the Government.

## **6 Risks**

- 6.1 The Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the funding available.
- 6.2 The main sources of income which may be subject to reductions include:
- Rental income, including bad debts and void rent loss
  - Fees and charges
  - Investment interest
- 6.3 Increased expenditure in service provision may be due to:
- Inflation and price increases for supplies and services;
  - Increased demand for services increasing costs;
  - Changes to taxation regime;
  - Unplanned expenditure;
  - Assumed savings in budgets not materialising;
  - Changes in Government legislation.

6.4 Triggers for increased costs or reduced income include:

- Economic cycle – impacting upon inflation, interest rates, unemployment, demand for services, Government funding available;
- Unplanned expenditure, e.g. costs from uninsured events or legal costs;
- Project costs – whereby there are unforeseen costs, or the project is not properly costed, or the risks related to them are not properly managed.
- Changes to assumptions underpinning the Housing Business Plan – these assumptions are closely monitored;
- Levies, charges and reductions in housing stock that may result from compliance with the Housing and Planning Act.
- Government policy.

6.5 Many controls and mitigations are in place to help manage these risks. These include:

- The comprehensive Budget Review process. This requires all budget managers to review their budgets on at least a monthly basis, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Executive and Senior Management Team.
- Financial Planning with the Housing Business Plan, bringing together all known/projected issues that will impact on HRA finances in the medium and long term.
- Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
- Project Management and associated controls.
- Trained staff and access to appropriate professional advice (e.g. WCC Legal, Local Government Futures for advice on local government funding and developments in housing).
- Scrutiny by Members of the Council's finances, including Budget Reports and the financial implications of all proposals brought to them for consideration.
- Maintenance of a HRA Capital Investment Reserve. The current balance on this reserve stands at £20.725m and whilst this is intended for capital investment it is available to fund any unexpected HRA costs.
- In addition to the reserve, the latest HRA Balance stands at £1.4m. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level and replenish any monies that are drawn down.
- The HRA follows the same Risk Management process as all Service Areas across the Council, including the on-going review and maintenance of risk registers.
- The specific causes of reductions to income or increased expenditure should continue to be managed by the Service Area as part of managing risks within the Service Risk Register. The Housing & Property Service Area Risk Registers are brought to Finance and Audit Scrutiny Committee every two years.

## **7 Alternative Options Considered**

- 7.1 The purpose of this report is to produce budgets as determined under the requirements of the Financial Strategy. Any alternative strategies will be the subject of separate reports.

## **8 Background**

- 8.1 With effect from April 2002, rent setting for both Housing Association and Council properties was determined by Government, who imposed a formula to determine a target rent for every property. Councils and Housing Associations were required to amend and alter their rents to move towards this Target Social Rent, which was designed to align rents across the two sectors, as Council rents have traditionally been lower than those charged by Housing Associations.

- 8.2 This policy, known as Rent Convergence, was recently abandoned by the Government. However, the calculation for a Target Social rent, which determines what a council can charge remains in place.

### **8.3 Housing and Planning Act**

- 8.3.1 The Housing and Planning Act received Royal Assent in May 2016. It includes a number of policy changes that will impact on the HRA Business Plan and potentially adversely affect its financial viability. However, there is still an absence of detailed regulations making it impossible to accurately predict the impact of these changes. Some informed estimates are included below, but recent intelligence is that the Government is potentially re-considering its approach to some of these elements. Whether this will result in a delay in the timing of their implementation or a fundamental review of the underpinning principles and potential impacts is not yet known so these estimates have not been built in to the Base Budget for 2017/18. If further clarity is available before the February 20176 report any relevant changes will be incorporated.
- 8.3.2 The Act extends the Right-to-Buy (RtB) policy to include Housing Association properties. However, it provides for the cost of funding the discounts given to Housing Association tenants to be covered by the Council housing sector. To ensure such funding is made available local housing authorities will have a duty ( but not an obligation) to consider the sale of 'high value' properties as they become empty.
- 8.3.3 It is not yet clear how much each council will have to contribute towards the RtB policy as the Government has yet to set out the formula or criteria that will be used for the calculation or even to define what a high value property will be. As the sale of 'high value' properties will not be compulsory it is assumed that a 'levy' will be imposed on the HRA of each stock-owning Council and that this will relate in some form to the open market value of the each council's housing stock and the turnover of its stock.
- 8.3.4 In the absence of detail, it is therefore difficult to predict what the precise impact will be on the HRA, particularly given that Warwick District is a high-value housing area. However, by taking the predicted cost of extending RtB nationally, estimated at £1.5bn per annum and dividing it by the 1,682,000

council owned homes in England, a potential 'levy' of £892 per home can be calculated. By using this methodology and multiplying this figure by the Council's 5,500 homes, the potential levy for the Council could be c£4.9m per year. If this was to be met solely by high value property sales the Council would need to sell at least 35 empty properties each year. However, some forecasts, using differing methodologies, have calculated that a potential annual 'levy' could be as high as £17m per year for Warwick District Council's HRA.

8.3.5 The Act also provides for households living in social housing, where the combined income of the two highest earning members of the household exceeds £30,000 to pay a rent at, or close to, the market rent for a similar property. Housing associations will not have to charge higher rents to their high earning tenants but if they do, they will be able to keep the additional income. However, Councils will not have a choice on implementation and will be required to pay all the extra rent collected to the Government. The Act also provides for the establishment of a process for taking a sum of money from councils based on a 'notional' estimate of Pay-to-Stay income that may not reflect local circumstances or the money actually collected by the Council, another form of 'levy' on the HRA.

8.3.6 Again, it is difficult to quantify the possible cost to the HRA Business Plan but an estimate based upon Treasury predictions of the money to be raised by this measure from local authorities suggests an annual cost to this Council of circa £785,000. Some of this may however be recovered from higher earning tenants, for which the administrative arrangements are still to be determined.

8.3.7 It was originally envisaged that the Pay to Stay provisions would be implemented from April 2017 although recent indications are that this date may be slipped. Further information on this subject and the implications for the HRA Business Plan, 2017/18 Base Budget and 2017/18 Council rents will be provided in the February 2017 report provided that details have been published by the Government before that date.

## 8.4 Local Housing Allowance

8.4.1 With effect from April 2018 the payment limits that apply to Local Housing Allowance (LHA), payable to tenants in the private sector, will apply to all tenants whose social tenancy began after April 2016. The Council's rents are currently well below current LHA levels for family sized homes but in the case of those aged below 35 whether working or not, LHA is restricted to the cost of single room in a shared household, currently circa £67 a week, which is less than the cost of one bedroom council flat. The Council will therefore need to consider its approach to this client group, including how it can assess and then manage the financial risks to the HRA Business Plan of this policy.

## 9 2017/18 Base Budget

9.1 In determining the 2017/18 Base Budget, the over-riding principle is to budget for the continuation of services at the existing level, but following adjustments need to be made to the 2016/17 Original Base Budget: .

- Removal of any one-off and temporary items
- Addition of inflation (contractual services and pay only)
- Addition of previously agreed Growth items



- Addition of unavoidable Growth items
- Inclusion of any identified savings

9.2 The table below summarises how the 2017/18 HRA base budget has been calculated. Appendix 'A' provides detail of the main changes.

	£
<b>Original Approved Net HRA Surplus 2016/17</b>	<b>(13,900)</b>
Committed Growth / Income Reductions	411,400
Income / Savings	(349,900)
Changes in Supervision and Management	122,700
IAS19 Pension adjustment changes	60,900
Decrease in capital finance contributions to Major Repairs Allowance	(20,700)
Contributions to / from reserves	(235,700)
	<hr/>
<b>BASE NET HRA SURPLUS 2017/18</b>	<b><u>(25,200)</u></b>

9.3 No inflation has been applied to budgets, apart from those where the Council is legally contracted to do so and 1% for an assumed pay award.

9.4 It should be noted that the base rent budget in this report is a baseline calculated from the rental assumptions presented in the HRA Business Plan.

The actual rents to be charged in 2017/18 and the Council's rent policy will be decided by Council in February 2017, and budgets will be updated to reflect those decisions.

9.5 The base 2017/18 budgets presented here allow for housing rents being reduced by 1% on the rent charged in 2016/17, to comply with the Government's policy on rents for social housing. In the case of void properties, the base rent will be:

- The assumed rent rate which should be what the previous tenant paid if that is already above Target Social Rent (Formula Rent) then reduced by 1% in the first relevant year and again by 1% for each successive year

or

- The formula rent for 2016/17, minus 1% in 2017/18 rent year and so on for the following four years.

Paragraph 4.4 of this report gives further explanation of rent policy.

Rent budgets include the projected effect of void homes being moved to Target Social Rent (Formula Rent) when re-let, as approved in June 2014.

9.6 Unavoidable and previously committed growth has been included in the Base Budget, the main elements being:

- Repairs - The main area for change within repairs is for painting & decoration. Following analysis of the cyclical work requirements it was established £450,000 was required for 2016/17. However 2017/18 only a minimal budget of £100,000, for reactive works will be

required, pending the establishment of a full cycle of works from 2018/19 onwards, based on a detailed evaluation of the current Stock Condition Survey information.

- Housing Related Support - The Supporting People Grant from Warwickshire County Council ceased on 31 July 2016. The consequent reduction in income of £308,700 has been factored into the latest 2016/17 Budget, with the full year impact of £464,000 being included within the HRA Business Plan. A report on revised proposals for providing and funding the housing related support services previously funded by this grant is underway and due to be reported to Executive in January 2017. The outcome of this review will be factored into the final Base Budget for 2017/18 in the February 2017 report.
- The 2017/18 Supervision and Management base budget has been increased by £122,700, driven by revised allocations to support services £105,900.

9.7 Any HRA surplus above that required to maintain the appropriate HRA working balance is transferred into the HRA Capital Investment Reserve, for use on future HRA capital projects. The Base Budget allows for a £4.4m contribution to the reserve in 2017/18.

9.8 The Revenue Contribution to Capital Outturn (RCCO) necessary to fund Capital Works is calculated taking into account all Housing Improvement Programme (HIP) changes approved by members to date, and specifically funds items that are not funded from the Major Repairs Reserve. An updated HIP will be presented in February 2017.

9.9 Appendix 'A' provides details of service expenditure and income. Explanations are provided where significant variations have been identified.

## 10 Latest Budgets 2016/17

10.1 A review of the 2016/17 budget has also been carried out in order to establish the latest budget for the current year. This then informs the base position for 2017/18 as described in Paragraph 9.1 above. Appendix 'A' provides a summary of major changes.

10.2 The table below summarises how the latest 2016/17 HRA budget has been calculated:

	£
<b>Original Approved Net HRA Surplus 2016/17</b>	<b>(13,900)</b>
Committed Growth / Income Reductions	311,500
Income / Savings	(400)
Changes in Supervision and Management	110,400
IAS19 Pension adjustment changes	64,900
Decrease in capital finance contributions to Major Repairs Allowance	142,500
Contributions to / from reserves	(628,900)
<b>LATEST NET HRA SURPLUS 2016/17</b>	<b><u>(13,900)</u></b>

- 10.3 The main item of growth in the above table is £310,800 which is in respect of revenue repairs. Of this sum £207,000 relates to sheltered schemes alarm systems, slipped from 2015/16, and £60,000 fire prevention block of flats scheme also slipped from 2015/16.
- 10.4 The Supervision and Management general budget has seen significant growth of £150,100 in 2016/17. This has been offset in part by a reduction in the special budget of £39,700. Key drivers of the increase in the Supervision and Management general budget are third party payments made for the stock condition survey £84,000, and revised allocations to support services £65,100. The reduction in the Supervision and Management special budgets has been driven primarily by IAS19 Pension adjustments and the transfer of staff from housing support to the income recovery team £25,000. Appendix 'A' provides a summary of major changes.
- 10.5 Taking into account all the changes to the 2016/17 HRA budgets, the estimated contribution to the HRA Capital Investment Reserve for the year will be £4m, a reduction of £0.5m from the Budget agreed in February 2016. This has been driven by the issues raised in 10.3 and 10.4.
- 10.6 At this moment in time there are no changes to the HRA element of the Housing Investment Programme that have not already been reported to and approved by the Executive. A full revision of the Housing Investment programme will be presented to Council in February 2017.