Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

22 JANUARY 2018

JOINT REPORT OF THE HOUSING PORTFOLIO HOLDER AND FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

A.4 HOUSING REVENUE ACCOUNT BUDGET PROPOSALS - REVISED BUDGET 2017/18 AND ORIGINAL BUDGET 2018/19

(Report prepared by Richard Barrett and Richard Hall)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To set out and seek approval of: • A Revised Housing Revenue Account (HRA) budget for 2017/18 and Original HRA Budget for 2018/19 including the movement in HRA Balances. • The level of fees and charges for 2018/19. • The five year HRA Capital Programme.

EXECUTIVE SUMMARY

- The budget has been calculated based on a number of limited changes.
- As set out in previous years, Local Authorities are required to reduce rents by 1% each year for 4 years, with 2018/19 being the third year of this approach.
- Unlike in previous years, given the on-going 1% reduction in rents and other changes, it is no longer possible to make an annual revenue contribution to HRA balances. In fact, to accommodate the cost of the 1% reduction in rent and other changes, it has been necessary to reduce the revenue contribution to the new build and acquisition scheme within the HRA capital programme from **£0.780m** to **£0.480m**.
- HRA debt continues to reduce year on year as principal is repaid with a total debt position at the end of 2018/19 forecast to be **£41.770m.** This provides borrowing ‘headroom’ of **£18.515m** against the HRA debt cap of **£60.285m.**
- The HRA general balance is forecast to total **£4.362m** at the end of 2018/19, which retains a strong financial position against which a revised HRA 30 year business plan can be considered.
- Work is underway to revise the HRA 30 year business plan alongside the Housing Strategy in 2018. However in respect of forecasting over a long term period, significant uncertainty still remains around Government policy on housing and the impact on Local Authorities, which will need to be taken into when finalising the revised business plan.

RECOMMENDATION(S)

That Cabinet:

(a) Approves the 2018/19 Scale of Charges shown in Appendix B;

(b) notes the 1% reduction in actual rents / formula rents in 2018/19 in line with the Government's imposed restrictions on rent setting policy;

(c) subject to (a) and (b) above, approves the Housing Revenue Account revised estimates for 2017/18 and original estimates for 2018/19 as set out in Appendix A, along with the HRA Capital Programme and the movement in HRA Balances / Reserves as set out in Appendix C and Appendix D respectively and;

(d) agrees that, in respect of 2017/18, the corporate financial system is amended accordingly to reflect these changes along with any amendments arising from revised financial reporting requirements.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The HRA budget and Business Plan plays a significant role in the delivery of affordable and decent housing in the district and the Council's responsibilities as a landlord has direct implications for the Council's ability to deliver on its objectives and priorities.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are set out in this report and its appendices.

Although the availability of financial resources is a key component in the delivery of HRA services there will also be a need for appropriate input of other resources such as staffing, assets, IT etc.

Risk

There are inherent risks associated with the forecast such as:

- Changes in income achieved and future rent setting policy
- Emergence of additional areas of spend
- Emergence of new or revised guidance
- New legislation / burdens
- Changing stock condition requirements
- Adverse changes in interest rates
- National welfare reforms

In view of the above it is important that a sufficient level of balances / reserves is available to support the HRA. HRA Balances are currently forecast to remain between **£4.000m** and **£5.000m,** which although required to support the business plan and HRA investment in future years, provide a 'buffer' to the 30 year Business Plan if, for example, some of the items highlighted above emerge or are required to deal with changing financial and service demand issues.

In mitigating the transfer of risk from Government to the Council under the self-financing changes that came into effect from April 2012, financial modelling was undertaken taking into account a number of assumptions and sensitivity testing. The outcome of this work confirmed the sustainability and resilience of the HRA within a self financing environment and the ability to provide opportunities for housing investment and associated housing services in the future, although it is acknowledged that the longer term view remains subject to the Government's housing policy.

LEGAL

It is a statutory requirement on a local authority to determine its Housing Revenue Account budget before the upcoming financial year and to ensure that its implementation will not result in an overall debit balance on the Account.

The new self-financing regime for the Housing Revenue Account that came into effect from April 2012 was enabled by the Localism Act 2011.

The Welfare Reform and Work Act 2016 introduced the 1% reduction in social rents from April 2016.

The Housing and Planning Act 2016 introduced a number of changes that have an impact on social housing, which subject to associated regulations need to be reflected in the HRA estimates as necessary.

The HRA 30 Year Business Plan was agreed as part of the self-financing reforms and associated borrowing agreed by Full Council in February 2012 and the budget proposed for 2018/19 remains broadly in-line with the plan.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

In carrying out its functions as a social landlord, the Council has regard to the need to reduce the potential for criminal activity by improving the security of dwellings as part of maintenance and repair programmes and for combating anti-social behaviour through effective management procedures.

Although there are no direct equality and diversity issues, the overall HRA and associated financial planning processes aim to recognise and include such issues where appropriate and relevant.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The HRA is the Council's landlord account and it is 'ring fenced' for this purpose. Comprehensive rules and requirements surround the HRA such as specific accounting treatment and what items can or cannot be charged to the account. Authorities are required to set a balanced HRA budget each year and agree the level of rents it wishes to charge.

From April 2012, the Housing Revenue Account has operated under the self-financing approach introduced as part of the Localism Act 2011 which required the Council to 'buy' itself out of the previous subsidy arrangements via a debt settlement process.

Although the Council has up to 2015/16 been free to set its own level of rents, increases each year have been considered within the context of the debt settlement process and 30 year HRA business plan, which was based on the continuation of the Government's commitment for rents to converge across the Social Housing Sector.

From 2016/17, the Government have imposed annual rent reductions of 1% for a period of 4 years, with the 2018/19 estimates reflecting the third year of this requirement.

HOUSING REVENUE ACCOUNT BUDGETS

HRA Revised Budget 2017/18 and Original Budget 2018/19

A high level summary is set out below. Additional information for significant items is also provided below with detailed information set out in **Appendix A.**

	2017/18 Original Budget £m	2017/18 Revised Budget £m	2018/19 Original Budget £m
Direct Expenditure	6.395	7.161	6.971
Direct Income	(14.252)	(14.022)	(13.875)
Indirect Income / Expenditure including Financing Costs	7.681	9.511	7.154
NET (SURPLUS) / DEFICIT	(0.176)	2.650	0.250
Contribution to / (from) Reserves	0.176	(2.650)	(0.250)

REVISED ESTIMATE 2017/18

The revised position is broadly in line with the original estimate, with the change in the contribution to or from reserves primarily reflecting the amounts carried forward from 2016/17. In general, items have been updated to reflect a more up to date position such as the impact in 2017/18 of the changes set out for 2018/19 below, with comments included in the appendices or set out in more detail further on in this report.

It was planned to make a contribution of **£0.176m** to HRA General Balances but due to the various changes set out in the appendices, the associated surplus is no longer forecast to be available, so no contribution has been made.

ORIGINAL ESTIMATE 2018/19

Given the various changes to the budget set out later on in this report, it has not been possible to make a contribution to HRA General balances in 2018/19. To be able to set a balanced budget, it has been necessary to reduce the revenue contribution to the Capital programme by **£0.300m**. This may therefore have an impact on the level of future investment in housing projects such as in Jaywick Sands.

Similarly to the General Fund, no underlying inflationary uplifts have been provided but against this overall backcloth, significant items have been subject to separate review where appropriate.

Comments against significant items within the overall position for the year are set out below:

Rental and Service Charges Income

As previously mentioned, 2018/19 is the third year that Local Authorities have to reduce rents by 1%. This has reduced the average rent to **£79.19** (from **£81.25*)***, which reduces the total rental income by **£0.131m.**

Rental income has been further reduced by **£0.200m** to reflect the current level of voids. This issue has been reported to members during the course of the year via the Corporate Budget Monitoring Reports which set out the approach being taken to repairs and asbestos removal where significant work is being undertaken when a property is vacated. This adjustment to the budget also reflects the increased level of voids at Honeycroft and Spendells Sheltered Housing Schemes as separately reported to Members earlier in the year.

Although not expected to have a significant overall impact, when a property becomes empty it is possible to charge the new tenant the formula rent associated with the property, which may be greater than the actual rent charged to the outgoing tenant. However this formula rent is also subject to the 1% reduction which limits the benefit from this change.

The above issue with periods of voids has also been reflected in service charge income which has been reduced by **£0.080m** in 2018/19.

Other HRA Budgets

The bad debt provision has been increased by **£0.030m** in 2018/19 to reflect current and expected collection performance with the roll-out of universal credit now having an impact on the amount required to be set aside each year.

Council Tax on empty properties – the budget has been increased by **£0.050m** to reflect the level of voids as highlighted earlier on in this report.

Revenue contribution to the capital programme – the amount available to contribute to the capital programme has been reduced by **£0.300m.**

Housing repairs – this budget has been increased by **£0.250m** to reflect the additional expenditure being incurred whilst properties are void such as asbestos removal. The cost has been fully met by utilising the corresponding housing repairs reserve.

Salary costs have increased by **£0.300m** due to staff being paid directly from the HRA rather than being recharged from the General Fund. This has been offset by a reduction in the recharges made from the General Fund.

Recharges from the General Fund – after taking into account the adjustment in salary costs mentioned above, the overall change in recharges has seen an increase of **£0.133m** for the year.

Other budget adjustments – a number of further adjustments have been made such as reflecting the most up to date position against a number of budgets such as:

- The charge from the Careline Service within the General Fund – increase of **£0.045m**
- Reduced contribution to the Major Repairs Reserve to reflect the most up to date forecast of required major capital works – reduction of **£0.074m**
- Reduction in interest costs as loans are repaid each year – reduction of **£0.039m**

HRA Fees and Charges

Further details are set out in **Appendix B.**

Following an annual review, a number of fees and charges have been revised to reflect the actual cost of providing the associated service.

HRA Capital Programme

The detailed HRA Capital Programme is set out in **Appendix C.**

The 2017/18 revised budget includes carry forwards from 2016/17. Primarily the future year's budgets reflect the estimated level of capital works based on stock condition surveys and any associated reviews.

The principal source of funding is the annual Major Repairs Contribution which primarily reflects the charge for depreciation plus an additional voluntary contribution to ensure the right level of investment in the housing stock can be maintained.

The use of capital receipts has been included in 2017/18 to reflect the decision to purchase a property in Harwich earlier in the year.

The 2017/18 Capital programme also includes a capital grant which reflects the money made available to the Council by the Government to support the starter homes scheme in Jaywick Sands.

HRA BALANCES / RESERVES

The detailed HRA Reserves are set out in **Appendix D.**

The forecast position for HRA balances at 31 March 2018 and 31 March 2019 will vary over time depending on the outturn positions for 2017/18 and 2018/19 as well as the emergence of other unexpected or unplanned matters that could occur in or across these years.

Current estimates put the total HRA reserves at **£8.935m** by the end of 2018/19, with the general balances element within this overall amount being **£4.362m**.

The use of the general reserve in 2017/18 reflects the decision made by Cabinet earlier in the financial year to establish a budget of **£0.200m** to support residents in the Honeycroft and Spendells sheltered housing schemes as part of the wider consideration of the future of the two schemes and associated consultation.

HRA DEBT

The total HRA debt at the start of 2017/18 was **£45.099m.**

No new debt has been taken on but principal repaid during 2017/18 totals **£1.664m**. With forecast repayments of principal of **£1.664m** in 2018/19, the level of HRA debt at the end of 2018/19 is forecast to be **£41.770m,** with average borrowing costs against this level of debt being 3.37**%.**

The Government's imposed HRA debt cap is **£60.285m.** Taking into account the actual level of HRA borrowing, at the end of 2018/19 the level of 'headroom' for additional future borrowing is **£18.515m**. This headroom will increase as debt is repaid each year although will be subject to further borrowing decisions in the future.

The annual cost of principal and interest included in the proposed HRA budgets is **£3.157m** and **£3.117m** for 2017/18 and 2018/19 respectively.

CODE OF PRACTICE – STATEMENT OF ACCOUNTS
Every year information is issued to Local Authorities which provides guidance on the information and presentation required for the Financial Statements the Council publishes on an annual basis. Therefore, although not directly affecting the overall financial position of the Council, changes may occur across years. Budgets may need to be reviewed and budget transfers undertaken to address any new requirements emerging from the relevant codes of practice that are issued each year.

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES	
Appendix A	HRA Budgets 2017/18 Revised and 2018/19 Original
Appendix B	HRA Proposed Fees and Charges 2018/19
Appendix C	HRA 5 Year Capital Programme
Appendix D	HRA Reserves