

<b>Report of:</b>	<b>Head of Finance and Head of Housing and Waste Management</b>
<b>Contact Officer:</b>	<b>Bob Kean Nirmal Samrai</b>
<b>Telephone No:</b>	<b>01543 464334 01543 464210</b>
<b>Portfolio Leader:</b>	<b>Housing</b>
<b>Key Decision:</b>	<b>No</b>
<b>Report Track:</b>	<b>Cabinet: 19/01/17 Council: 08/02/17</b>

**CABINET  
19 JANUARY 2017  
HOUSING REVENUE ACCOUNT BUDGETS 2016-17 TO 2019-20**

**1 Purpose of Report**

- 1.1 To review the 2016-17 Housing Revenue Account Budget
- 1.2 To refresh the Housing Revenue Account budgets for the period 2017-18 to 2018-19 and introduce the 2019-20 Draft Budget.
- 1.3 To determine the proposed three year Housing Revenue Account Budget for consideration by Council on 8 February 2017.

**2 Recommendations**

- 2.1 That the revised position with regard to estimated income and expenditure in respect of the 2016-17 Housing Revenue Account Budget and Housing Revenue Account budgets for the period 2017-18 to 2019-20 as summarised in Appendix 1 be noted.
- 2.2 That Council on 8 February 2017 be recommended to:-
  - (i) Determine a minimum level of working balances of £1.706 million for 2017-18 and indicative working balances of £1.730 million and £1.750 million for 2018-19 and 2019-20 respectively.
  - (ii) To note the further 1% reduction in rents in 2017-18 in accordance with the Governments Social Rent Policy
  - (iii) Approve the HRA Revenue Budgets for 2017-18, 2018-19 and 2019-20 (and note the estimated outturn for 2016-17) as summarised in Appendix 1 of the report.

### 3 Key Issues and Reasons for Recommendation

- 3.1 This report considers proposed three-year HRA budgets for 2017-18, 2018-19 and 2019-20, which has been formulated within the framework provided by the Approved Housing Revenue Account Business Plan considered by Cabinet on 10 December 2015.
- 3.2 A review of the 2016-17 HRA budget, together with base HRA budgets for the period 2017-18 to 2019-20 are attached as Appendix 1. The budgets have been formulated in accordance with the assumptions set out in the HRA Business Plan, with projected levels of income and expenditure as summarised below.

<b>Table 1: HRA Summary Budget 2017-18 to 2019-20</b>			
	<b>2017-18</b> <b>£000's</b>	<b>2018-19</b> <b>£000's</b>	<b>2019-20</b> <b>£000's</b>
Income	-19,868	-19,460	-19,166
Expenditure	17,066	17,299	17,496
Revenue Contribution to Capital Outlay	2,620	2,138	1,650
Working Balances Change	182	23	20

- 3.3 Rent income continues to reflect an annual rent reduction of 1% per annum (including the new 2019-20 budget) reflecting the revised national rent policy as determined by the Government's 2015 Summer Budget ( the rent policy will revert to the Consumer Price Index plus 1% with effect from 2020-21).
- 3.4 No material changes to date have arisen from the Housing and Planning Act 2016 that impact directly on the assumptions contained in the Business Plan. No account had been taken in the indicative budgets, as set last year, for the impact of Vacant High Value Housing Payments and High Income Social Tenants: Mandatory Rents (Pay to Stay) pending an analysis of the detailed regulations. Although the Government have rescinded the Pay to Stay mandatory requirement the Council are still awaiting details re High Value Vacant Payments. The Budgets therefore maintain the net reduction in properties due to voids at 2% for 2018-19 onwards as compared with an actual level of some 0.7%. Additional rental income of £151,000 is therefore assumed for 2016-17 and 2017-18 only The full impact of the actual High Value Baseline will be assessed following publication of the proposed regulations and will then be subject to a further report.
- 3.5 The Budgets do however reflect the savings attributable to the HRA from Corporate and Support Services savings as contained in the General Fund Financial Recovery Plan and amount to £207,000 per annum.
- 3.6 Capital financing charges are also lower than anticipated due to the prevailing low interest rates and this has enabled both a rescheduling of principal repayments and ongoing savings of £130,000 per annum.
- 3.7 In considering the HRA Revenue Account, consideration needs to be given to the HRA Capital Programme and the level of Working Balances. A key

consideration of the Capital Programme is the Revenue Contribution to Capital Outlay (RCCO) .In accordance with the Approved Business Plan the RCCO represents the net surplus on the Revenue Account after determining the level of Working Balances.

- 3.8 In view of the risks associated with the management of the HRA under self-financing, minimum working balances of 10% of net operating expenditure have been assumed throughout the three-year budget period.

#### **4 Relationship to Corporate Priorities**

- 4.1 The proposed HRA budgets would contribute to the following strategic objectives, which form part of the Housing Portfolio section within the 2017-18 “ More and Better Housing ” Priority Delivery Plan, i.e.
- (i) Increase the supply of affordable housing.
  - (ii) Improving the Council’s social housing stock

#### **5 Report Detail**

- 5.1 Cabinet on 10 December 2015 approved a revised Housing Revenue Account Business Plan for the continued implementation of the devolved HRA “self financing system”. The revised plan covered the period 2015-16 to 2019-20 and reflected the 1% reduction in rents for 4 years with effect from April 2016.
- 5.2 The Approved HRA Business Plan has been used to provide the financial framework within which detailed HRA budgets for the three-year period 2017-18 to 2019-20 have been formulated.
- 5.3 The proposed budgets reflect ongoing effects of the anticipated outturn in respect of the 2016-17 HRA budget (which is reviewed as part of this report) and other changes in income and expenditure which are projected as a result of the detailed budget formulation work.
- 5.4 The budgets will also reflect savings attributable to the HRA as a result of efficiency and other savings in relation to Corporate and Support Services arising from the General Fund Financial Recovery Plan.

#### **The Housing Revenue Account Budget 2016-17**

- 5.5 A review of the 2016-17 Budget is presented as part of Appendix 1.
- 5.6 The budget has been refreshed to reflect the latest stock numbers with changes made to Dwellings Rent, Garage Rents and Repairs Budgets.
- 5.7 A detailed review of employee budgets has also been undertaken with the latest budgets reflecting the staff turnover experienced in recent years.

- 5.8 Net savings of £0.548 million are anticipated in the year reflecting reduced recharges from the General fund (£0.191 million); lower than anticipated void levels (£0.220 million) and other forecast underspends in the year. Estimated expenditure for 2016-17 is now forecast to be £20.147 million and Income £20.043 with a release from working balances of £0.104 million.

**Housing Revenue Account Budgets 2017-18 to 2019-20**

- 5.9 The Approved 30 year HRA Business Plan has been used as the basis for preparing the HRA budgets for the period 2017-18 to 2019-20 which are attached as Appendix 1.
- 5.10 The budgets reflect a continuation of current policies and the maintenance of existing service provision throughout the budget period.
- 5.11 No material changes have been made in relation to inflation and cost pressures. The assumptions reflect the indicative budgets set last year with the provision for the 2% per annum increase in employer contributions to the Staffordshire Pension Fund being confirmed by the 2016 Actuarial Revaluation.
- 5.12 Rent income continues to reflect an annual rent reduction of 1% per annum (including the new 2019-20 budget) reflecting the revised national rent policy as determined by the Government’s 2015 Summer Budget ( the rent policy will revert to the Consumer Price Index plus 1% with effect from 2020-21).
- 5.13 A comparison of the latest Revenue Contribution to Capital Outlay (which effectively represents the net income of the HRA account) from the revised Business Plan to the Draft Budget is reflected in Table below.

<b>Table 3: Reconciliation of RCCO – Interim Business Plan to Draft Budget</b>			
	2017-18	2018-19	2019-20
	£000	£000	£000
Financial Plan	2,446	1,785	1,158
Draft Budget	2,620	2,138	1,650
Variance	174	353	492

- 5.14 The budget has been refreshed to reflect the latest stock numbers with changes made to Dwellings Rent, Garage Rents and Repairs Budgets whereas Capital Financing Charges reflect the achievement of the revised borrowing cap of £86.044 million during the budget period and the relevant repayment of principal.
- 5.15 Void allowances on Rent income are currently at 0.7% however in light of the potential impact on Stock numbers arising from the proposed Vacant High Value Housing Payments the 2% allowance has been maintained at this stage for 2018-19 onwards. The full impact of this change will be assessed following publication of the proposed regulations and will then be subject to a further report.
- 5.16 The increase in RCCO primarily arises from the reduction in charges from the General Fund (£0.207 million) and reduced costs for the social alarms service

with a wireless network replacing the hardwired system (£0.063 million). Further savings accrue from 2018-19 onwards in relation to capital financing charges.

### **Proposed Housing Revenue Account Budgets 2017-18 to 2019-20**

- 5.17 Proposed Housing Revenue Account Budgets for the period 2017-18 to 2019-20 are attached as Appendix 1.

### **Effect on Working Balances**

- 5.18 The effect of the proposed budgets on the estimated level of working balances is shown as part of Appendix 1. As previously stated a minimum working balance of 10% of net operating expenditure has therefore also been assumed throughout the three-year budget period.
- 5.19 The level of working balances throughout the budget period is summarised below:-

<u>Working Balances</u>	£
At 31 March 2016	1,629,240
At 31 March 2017	1,524,620
At 31 March 2018	1,706,630
At 31 March 2019	1,729,920
At 31 March 2020	1,749,630

## **6 Implications**

### **6.1 Financial**

The financial implications have been referred to throughout the report.

### **6.2 Legal**

None

### **6.3 Human Resources**

The estimated budgets include provision for employees.

### **6.4 Section 17 (Crime Prevention)**

Actions to combat anti-social behaviour on the council's estates funded through the proposed budgets would have positive implications form crime prevention.

### **6.5 Human Rights Act**

None

### **6.6 Data Protection**

None

## 6.7 Risk Management

Self-financing increases the risks associated with the management of the HRA and a detailed risk analysis forms part of the 30 Year Business Plan.

The risks relate to income as well as expenditure and any change in Government policy will impact upon the balances available to support the Capital Programme. In particular the implementation of Vacant High Value Housing Payments as contained in the Housing and Planning Act 2016 in relation to Cannock Chase Council will impact upon income levels.

A number of actions are undertaken to further mitigate risks associated with the management of the HRA which include:-

- (i) The adoption of a prudent approach to budgeting, particularly rent income
- (ii) The maintenance of an adequate level of working balances, comprising a minimum of 10% of net operating expenditure. Due to the reduction in rent levels and increase in cost pressures working balances will increase in 2017-18 enabling a contingency to be provided in the short term to meet the potential implications of the Housing and Planning Act
- (iii) The adoption of a more realistic approach in assessing staff turnover in determining employee budgets.
- (iv) Housing Revenue Account Business Plan projections together with associated sensitivity analysis.
- (v) Firm budgetary control though regular monitoring of actual and forecast income and expenditure.
- (vi) The implementation of an annual Internal Audit Plan and scrutiny from the External Auditor.

## 6.8 Equality & Diversity

The draft budget reflects a continuation of current policies and the maintenance of existing service provision throughout the budget period.

## 6.9 Best Value

None.

<b>7 Appendices to the Report</b>
-----------------------------------

Appendix 1: HRA Budgets 2016-17 to 2019-20

<b>Previous Consideration</b>			
<table style="width: 100%; border: none;"> <tr> <td style="width: 40%; padding: 5px;">Interim Review of Housing Revenue Business Plan</td> <td style="width: 20%; padding: 5px; text-align: center;">Cabinet</td> <td style="width: 40%; padding: 5px; text-align: right;">10 December 2015</td> </tr> </table>	Interim Review of Housing Revenue Business Plan	Cabinet	10 December 2015
Interim Review of Housing Revenue Business Plan	Cabinet	10 December 2015	
<b>Background Papers</b>			

## APPENDIX 1

	Original Budget	Approved Budget	Revised Budget	Budget	Budget	Budget
	2016-17	2016-17	2016-17	2017-18	2018-19	2019-20
Income	£	£	£	£	£	£
Dwelling Rent	(19,401,890)	(19,621,890)	(220,000)	(19,438,790)	(19,024,190)	(18,724,390)
Non Dwelling Rent	(381,350)	(373,390)	7,960	(381,860)	(387,470)	(393,090)
Interest	(1,490)	(1,490)	-	(1,500)	(1,500)	(1,500)
Other	(15,690)	(11,310)	4,380	(11,450)	(11,770)	(11,890)
General Fund Contribution	(37,520)	(34,820)	2,700	(35,200)	(35,550)	(35,550)
<b>Total Income</b>	<b>(19,837,940)</b>	<b>(20,042,900)</b>	<b>(204,960)</b>	<b>(19,868,800)</b>	<b>(19,460,480)</b>	<b>(19,166,420)</b>
<b>Expenditure</b>						
Discretionary Housing Payment						
Repairs and Maintenance	4,173,690	4,340,300	166,610	4,583,320	4,516,050	4,602,530
Supervision & Management						
– General	3,448,560	3,167,450	(281,110)	3,357,200	3,463,370	3,553,060
– Special	967,280	852,210	(115,070)	929,720	956,850	980,530
Total Management	4,415,840	4,019,660	(396,180)	4,286,920	4,420,220	4,533,590
Capital Financing	6,873,600	6,886,220	12,620	8,196,090	8,362,960	8,360,130
RCCO	4,352,760	4,901,340	548,580	2,620,460	2,137,960	1,650,460
<b>Total Expenditure</b>	<b>19,815,890</b>	<b>20,147,520</b>	<b>331,630</b>	<b>19,686,790</b>	<b>19,437,190</b>	<b>19,146,710</b>
<b>Working Balance transfer</b>	<b>22,050</b>	<b>(104,620)</b>	<b>(126,670)</b>	<b>182,010</b>	<b>23,290</b>	<b>19,710</b>

**Appendix 1 Cont.**

	Original Budget	Approved Budget	Revised Budget	Budget	Budget	Budget
Working Balance	2016-17	2016-17	2016-17	2017-18	2018-19	2019-20
	£	£	£	£	£	£
B/fwd.	(1,524,260)	(1,629,240)		(1,524,620)	(1,706,630)	(1,729,920)
In year	(22,050)	104,620	126,670	(182,010)	(23,290)	(19,710)
C/fwd.	(1,546,310)	(1,524,620)	21,690	(1,706,630)	(1,729,920)	(1,749,630)
Minimum	1,546,310	1,524,620		1,706,630	1,729,920	1,749,630