

Report of:	Head of Finance and Head of Housing and Partnerships
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Key Decision:	No
Report Track:	Cabinet: 25/01/18 Council: 07/02/18

**CABINET
25 JANUARY 2018
HOUSING REVENUE ACCOUNT BUDGETS 2017-18 TO 2020-21**

1 Purpose of Report

- 1.1 To review the 2017-18 Housing Revenue Account Budget
- 1.2 To refresh the Housing Revenue Account budgets for the period 2018-19 to 2019-20 and introduce the 2020-21 Draft Budget.
- 1.3 To determine the proposed three year Housing Revenue Account Budget for consideration by Council on 7 February 2018.

2 Recommendations

- 2.1 That the revised position with regard to estimated income and expenditure in respect of the 2017-18 Housing Revenue Account Budget and Housing Revenue Account budgets for the period 2018-19 to 2020-21 as summarised in Appendix 1 be noted.
- 2.2 That Council on 7 February 2018 be recommended to:-
 - (i) Determine a minimum level of working balances of £1.671 million for 2018-19 and indicative working balances of £1.706 million and £1.731 million for 2019-20 and 2020-21 respectively.
 - (ii) To note the further 1% reduction in rents in 2018-19 in accordance with the Governments Social Rent Policy
 - (iii) Approve the HRA Revenue Budgets for 2018-19, 2019-20 and 2020-21 (and note the estimated outturn for 2017-18) as summarised in Appendix 1 of the report.

3 Key Issues and Reasons for Recommendation

- 3.1 This report considers the proposed three-year HRA budgets for 2018-19, 2019-20 and 2020-21, which have been formulated within the framework provided by the Approved Housing Revenue Account Business Plan.
- 3.2 A review of the 2017-18 HRA budget, together with base HRA budgets for the period 2018-19 to 2020-21 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.

Table 1: HRA Summary Budget 2018-19 to 2020-21			
	<u>2018-19</u> £000's	<u>2019-20</u> £000's	<u>2020-21</u> £000's
Income	(19,757)	(19,312)	(19,788)
Expenditure	16,707	17,059	17,311
Revenue Contribution to Capital Outlay	3,020	2,218	2,452
Working Balances Change	30	35	25

- 3.3 Rent income continues to reflect an annual rent reduction of 1% per annum for 2018-19 and 2019-20 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 have been made in relation to inflation and cost pressures, with the exception of pay awards. Provision of 1% existed within the indicative budgets for 2018-19 and 2019-20, however as a result of the National Employers for Local Government offer, made on the 5 December 2017 the provision now amounts to 2.47% in 2018-19 rising to a combined impact of 4.9% in 2019-20 as compared to the 2% originally provided.
- 3.5 No direct account has been taken at this stage for the impact of Vacant High Value Housing Payments associated with the Housing and Planning Act 2016. The Council is still awaiting details re the threshold for High Value Vacant Payments however it is considered that its implementation will not impact until after the 2018-19 financial year. 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.
- 3.6 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) and Major Repairs Allowance (MRA). The latter has been replaced with a Depreciation Charge and although this is lower than the previous MRA a compensating increase in RCCO has been made. In accordance with the Approved Business Plan the RCCO also represents the net surplus on the Revenue Account after determining the level of Working Balances.

- 3.7 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 2018-19 “More and Better Housing” Priority Delivery Plan, i.e.
- (i) Increase the supply of affordable housing.
 - (ii) Improving the Council’s social housing stock

4 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, covering the period 2016-17 to 2019-20.
- 5.2 In approving the 2017-18 budget it was agreed that, following details of the Government’s Vacant High Value Payment being published and its impact determined, a revised HRA Business Plan and revised 5 year projection would be produced during 2018-19. Details of the Vacant High Value threshold are however still awaited and hence at this stage only a refresh of the existing plan has been undertaken.
- 5.3 The Approved HRA Business Plan has been used to provide the financial framework within which detailed HRA budgets for the three-year period 2018-19 to 2020-21 have been formulated.
- 5.4 The proposed budgets reflect ongoing effects of the anticipated outturn in respect of the 2017-18 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.

The Housing Revenue Account Budget 2017-18

- 5.5 A review of the 2017-18 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. Suppliers and Services budgets have also been refreshed to reflect latest spending patterns.
- 5.8 Capital Financing charges now reflect a Depreciation Charge rather than a Major Repairs Allowance. Although a reduction in the Depreciation Charge has

occurred the impact on the overall HRA budget is neutral since there is a corresponding increase in Revenue Contribution to Capital Outlay (RCCO). Depreciation /MRA and RCCO charges represent key financing elements of the Capital Programme.

- 5.9 Estimated expenditure for 2017-18 is now forecast to be £20.035 million and Income £19.895 million with a forecast release from working balances of £0.140 million. This represents an improvement /additional net Revenue Contribution to Capital Outlay of £0.322 million as compared to the Original Budget

Housing Revenue Account Budgets 2018-19 to 2020-21

- 5.10 The Approved 30 year HRA Business Plan has been used as the basis for preparing the HRA budgets for the period 2018-19 to 2020-21 which are attached as Appendix 1.
- 5.11 The budgets reflect a continuation of current policies and the maintenance of existing service provision throughout the budget period.
- 5.12 No material changes have been made in relation to inflation and cost pressures, with the exception of pay awards. Provision of 1% existed within the indicative budgets for 2018-19 and 2019-20, however as a result of the National Employers for Local Government offer made on the 5 December 2017 the provision has been increased to 2%. The actual increase after taking into account the higher increase in lower Spinal Column Point's amounts to 2.47% in 2018-19 rising to a combined impact of 4.9% in 2019-20. The additional cost including recharges from the General Fund amount to £0.081 million in 2018-19 rising to £0.166 million thereafter
- 5.13 Other assumptions are in line with the indicative budgets set last year with the provision for the 2% per annum increase in employer contributions to the Staffordshire Pension Fund being extended to 2020-/21 pending actual determination as part of the 2019 Actuarial Revaluation.
- 5.14 Rent income continues to reflect an annual rent reduction of 1% per annum reflecting the revised national rent policy as determined by the Government's 2015 Summer Budget whereby a 1% per annum reduction applies for the period 2016-17 through to 2019/20. The Housing White Paper, 'Fixing our Broken Housing Market' (February 2017), included a commitment to develop a rent policy for social landlords beyond 2020. On 4 October 2017, DCLG announced that "increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020".
- 5.15 A comparison of the latest Revenue Contribution to Capital Outlay (which effectively represents the net income of the HRA account) from the Indicative Budgets set last year to the Draft Budget is reflected in Table overleaf.

Table 2: Reconciliation of RCCO – Indicative to Draft Budget			
	2018-19	2019-20	2020-21
	£000	£000	£000
Indicative Budget	2,138	1,650	1,650
Draft Budget	3,020	2,218	2,452
Variance	882	568	802
Of Which			
Depreciation /MRA Adj	472	466	482

- 5.16 The budget has been refreshed to reflect the latest stock numbers with changes made to Dwellings Rent, Garage Rents and Repairs Budgets. Rent income will increase by £0.564 million in 2020-21 following the removal of the 1% reduction and return to CPI +1%.
- 5.17 An additional net Revenue Contribution to Capital Outlay of £0.233 million will therefore arise in 2020-21 and is likely to increase pro rata thereafter. In order to fully assess the options for the HRA Business Plan, and to update the Capital Programme investment profile, a Stock Condition Survey is to be commissioned enabling a new 30 Year plan to be prepared.
- 5.18 Capital Financing Charges have been amended to reflect the profile of expenditure as contained in the Draft Capital Programme and the refresh of available resources with savings occurring in 2018-19 and 2019-20. In addition to interest on borrowing provision also exists for the voluntary Minimum Revenue Provision (Repayment of Debt) during the period.
- 5.19 Void allowances on Rent income are currently at 0.8% 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 2019-20 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.

Proposed Housing Revenue Account Budgets 2018-19 to 2020-21

- 5.20 Proposed Housing Revenue Account Budgets for the period 2018-19 to 2020-21 are attached as Appendix 1.

Effect on Working Balances

- 5.21 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.

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 2018-19 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 through 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.

7 Appendices to the Report

Appendix 1: HRA Budgets 2017-18 to 2020-21

Previous Consideration

Interim Review of Housing Revenue Business Plan Cabinet 10 December 2015

Background Papers

None

HRA Budgets 2017-18 to 2020-21

	Original Budget	Approved Budget	Revised Budget	Budget	Budget	Budget
	2017-18			2018-19	2019-20	2020-21
Income	£	£	£	£	£	£
Dwelling Rent	(19,438,790)	(19,490,100)	(51,310)	(19,334,000)	(18,882,000)	(19,350,000)
Non Dwelling Rent	(381,860)	(356,860)	25,000	(374,110)	(381,570)	(389,250)
Interest	(1,500)	(1,500)	-	(1,500)	(1,500)	(1,520)
Other	(11,450)	(11,450)	-	(11,770)	(11,890)	(12,010)
General Fund Contribution	(35,200)	(35,200)	-	(35,550)	(35,520)	(35,520)
Total Income	(19,868,800)	(19,895,110)	(26,310)	(19,756,930)	(19,312,480)	(19,788,300)
Expenditure						
Repairs and Maintenance	4,583,320	4,576,740	(6,580)	4,642,590	4,752,300	4,832,140
Supervision & Management						
– General	3,357,200	3,250,980	(106,220)	3,457,730	3,587,320	3,679,710
– Special	929,720	860,740	(68,980)	924,740	950,200	976,320
Total Management	4,286,920	4,111,720	(175,200)	4,382,470	4,537,520	4,656,030
Capital Financing	8,196,090	7,715,870	(480,220)	7,681,870	7,769,050	7,823,100
RCCO	2,620,460	3,630,820	1,010,360	3,019,740	2,218,410	2,451,790
Total Expenditure	19,686,790	20,035,150	348,360	19,726,670	19,277,280	19,763,060
Working Balance transfer	182,010	(140,040)	(322,050)	30,260	35,200	25,240

Appendix 1 Cont.

	2017-18			2018-19	2019-20	2020-21
Working Balance	Original Budget	Approved Budget	Revised Budget	Budget	Budget	Budget
	£	£	£	£	£	£
B/fwd.	(1,524,620)	(1,780,470)	(255,850)	(1,640,430)	(1,670,690)	(1,705,890)
In year	(182,010)	140,040	322,050	(30,260)	(35,200)	(25,240)
C/fwd.	(1,706,630)	(1,640,430)	66,200	(1,670,690)	(1,705,890)	(1,731,130)
Minimum	1,706,630	1,640,430		1,670,690	1,705,890	1,731,130