APPENDIX 2

Housing Revenue Account

Introduction

1. This Appendix considers the elements of the Medium Term Financial Plan relating to the Council's Housing Revenue Account (HRA) budgets. It covers the Council's revenue expenditure relating to the provision of Council Housing. This financial and service planning framework has a direct impact upon the quality of the housing service provided by the Council to our tenants.

2. The proposed budgets for both 2016/17 (Estimated Outturn) and 2017/18 (Original Budget) are detailed in Appendix 1 to this report. The Appendix also details the projected position, on the basis of current patterns of income and expenditure, for the period 2018/19 to 2020/21.

2016/17 Estimated Outturn Budget

- In February of 2016 Members agreed a budget in respect of the current financial year 2016/17. That original budget is detailed in Table 1 of this Appendix, where it can be compared against the Estimated Outturn Budget for 2016/17. The position on the HRA has been monitored during the course of the year with Estimated Outturn budgets for the HRA having only minor changes to the Original Budget figures reported and approved by Council in February 2016. The minor changes to both income and expenditure as detailed in Table 1 effectively balance each other out in financial terms, with the net result that the forecast surplus has increased from one of £0.011m to one of £0.014m. At the year end the projected HRA Reserve is one of £1.905m.

3. With respect to the period up March 2017 the impact of the April 2012 localisation of the HRA reform has resulted in minimal impact upon the Council's tenants. This was always the intended outcome. Underpinning the reforms of 2012 was a core principle that each local authority became a standalone landlord managing what amounted to a commercial HRA, with a considerable degree of local autonomy. A key factor in the successful transition was that the initial settlement was a reasonable one which protected existing levels of income and effectively insulated the HRA from the austerity which applied to other areas of the public sector. Underlying the HRA localisation was a Government calculation concerning the financial viability of each individual Council's HRA which was used as the basis for allocating debt. In the case of Bolsover District Council the debt transfer amounted to £94.3m which currently costs some £4.5m p.a in repayments, amounting to 25% of the rental income.

4. Local Authorities became responsible for managing HRA income along with repaying debt, ensuring adequate financial provision to maintain and refurbish the stock and meeting the service expectations of our tenants. Subsequent to the initial debt settlement which was based upon affordability as calculated by a financial model, the Government has introduced a range of significant changes to the assumptions upon which the debt calculation was based. These include changes in regulations making Right to Buy more attractive, together with changes to the policy for setting council house rents. Both of these – which are outlined in more detail below – have served to reduce the

rental stream against a background of essentially fixed costs such as debt repayment, services to tenants and investment in tenants' homes. The combined impact of these changes has been to undermine what was a reasonable settlement, with the extension of the public sector austerity agenda into the Housing Revenue Account.

5. In terms of quantifying the impact of these changes amendments to the Right to Buy legislation, together with the improving economic position has resulted in the number of Right to Buy's rising from the 8 per annum assumed within the HRA Debt Allocation model, to a position where approximately 60 sales will be completed during the current financial year. For the HRA this represents a significant loss of income with the additional homes sold in the current year alone reducing the Council's rental stream by in excess of £200,000 every year, or £6m over the period of the Business Plan. Legislation is also being considered to require Councils to dispose of their 10% of most valuable properties. While the Government has announced that this initiative will only apply from April 2018 the position will need to be monitored carefully given the potential impact upon revenue streams and costs which will fall upon the HRA.

Level of Council House Rents

6. Secondly, in addition to providing additional incentives for tenants to exercise the Right to Buy, the Government has also reduced the income stream to the HRA by adjusting national rent policy so that rent increases were lower than allowed for in the HRA localisation model. National Rent policy was first amended as part of the 2013 Spending Round when the Government removed rent convergence from the formula, and switched the calculation of inflation from RPI to CPI. Taken together and given that Bolsover was considerably below 'target rent' these changes resulted in a loss of income to the HRA in excess of £1m p.a. Government justified the ending of the rent convergence policy on the basis that a majority of Council's had already reached target rents, however, this is not the case in Bolsover where as a Council we started at a lower level of rent than many other authorities.

7. While the revised rent policy was intended to last for the 10 years from April 2015, the incoming Government changed that policy in the budget of July 2015. Accordingly, with respect from April 2016 the Government has required local authorities in common with all other providers of social housing to reduce rental levels by 1% per annum. This policy has been set to cover the four years from April 2016 to April 2019 and nationally will contribute £2.4bn towards the Government target of securing £12bn of savings from the welfare system. For Bolsover District Council this reduces rental income by £0.4m in respect of 2016/17, which rises to £1m in respect of 2017/18. Over the period of the 30 year HRA Business Plan the loss of rental income is estimated to amount to £60m.The actual rental loss is, however, dependent upon the level of inflation and the table given below demonstrates that the higher the level of inflation over this period the greater the loss of rental income will be.

Estimated rent loss comparing new government policy to existing policy. (£m) – excluding RTB / New Build

Inflation	Year 1 (2016/17)	Year 2 (2017/18)	Year 3 (2018/19)	Year 4 (2019/20)	Year 1-4	30 year
0%	0.43	0.85	1.28	1.71	4.28	35.28
0.5%	0.53	1.07	1.61	2.15	5.37	74.28
1.0%	0.64	1.29	1.94	2.60	6.48	95.94
1.5%	0.79	1.15	2.28	3.06	7.60	120.61
2.0%	0.85	1.73	2.62	3.53	8.72	148.73
2.5%	0.96	1.95	2.96	4.00	9.87	180.74
3.0%	1.06	2.17	3.30	4.47	11.02	217.19

8. Given that the HRA needs to be financially self sufficient the reduction in income will need to be accompanied by corresponding expenditure reductions. On the basis of current information that is likely to be managed by a reduced capacity to operate a new build programmes (although the currently agreed B@home programme will continue, together with a rephasing of debt repayments and expenditure plans within the HRA capital programme. Officers are currently of the view that the position can be managed with only a limited impact on tenants – which reflects our low cost base – however, it does need to be recognised that if more realistic rent increases in line with inflation are not agreed from April 2020 then given the debt burden and other fixed costs on the HRA the position will become increasingly difficult.

9. In the short term the major revision to the Council's HRA has been a reduction in the level of debt repayment by a corresponding amount with effect from April 2016. While the Council is still operating on the basis that it will be able to repay its debt within the 30 years of the Business Plan, this reduction in the level of debt repayment increases interest costs in future years and impacts on the Council's ability to acquire new properties.

10. With respect to the change in the basis of setting rental levels this will have a significant impact of the financial sustainability of the local HRA. In addition to a reduced financial capacity to build new homes and slower repayment of outstanding debt existing tenants may be adversely affected by a rephasing of future capital upgrades. Although the Council will continue to seek to secure efficiency savings there will inevitably be detrimental impact on services to tenants.

<u>Housing Revenue Account Budget 2017/18</u>

11. The proposed HRA budget in respect of 2017/18 is presented in Table 1 to this Appendix. There are three key changes which are driving the budget position in respect of next financial year which are as follows:

- The change in rent setting policy which reduces the level of income by £1m from the figure set out within the original HRA Business Plan.
- In response to the loss of rental income and other pressures the level of debt repayment had to be reduced from £3.5m in 2015/16 to a figure of just over £1m for both 2016/17 and 2017/18. In order to secure the objective of repaying the debt within the 30 year Business Plan period it

will be necessary to accelerate debt repayment in the later years of the Plan, which should be facilitated by the anticipated return to rent increases at a level marginally above inflation from April 2020 onwards

- Given these pressures – together with the costs of the new build scheme and the work at New Bolsover it has been necessary to constrain expenditure on the level of routine capital upgrades to the housing stock.

12. On the basis of the proposed budget it is planned that the HRA will generate a small in year surplus of £0.009m. This will increase the level of general HRA reserves to a figure in the region of £1.914m at the end of March 2017. While previously Council had agreed to an increase to £2m given the increasingly financial challenging position on the HRA this figure will need to be achieved gradually, and on the basis of current plans will not be achieved by March 2021.

13. Given the financial challenges which have been identified within this Appendix it should be noted that Officers are continuing to monitor the sustainability of the HRA primarily through the 30 Year Business Plan. One of the major challenges facing the HRA following on from the changes introduced by the Government is that of funding the programme of capital works necessary to ensure that the Council can maintain its properties at the Decent Homes standard. Given the other pressures on the HRA the level of resources available for capital investment has been reduced to an average of £4.8m a year over the period of the current MTFP. Officers are currently working with the Chartered Institute of Housing in order to remodel the 30 Year Business Plan. One of the key issues that will be considered is that of ensuring that sufficient capital resources are available to maintain the Council Stock at the Decent Homes standard. On the basis of the current 30 year Business Plan the Council should be in a position to generate sufficient revenue to fund a capital programme in the region of £5m per annum. The stock condition survey data indicates that should be sufficient to fund a programme which will maintain the Council housing stock at the decency standard, although use will need to be made of both phasing of expenditure and headroom borrowing in order to ensure that the Programme remains affordable during the later stages of the MTFP.

14. The measures outlined within this report enable the funding of HRA expenditure budgets for 2017/18 which are essentially a roll forward budget. Under the current proposals it is planned that tenants will see a continuation of existing levels of service over the period of the current Medium Term Financial Plan. Over the period of the 30 year Business Plan the budget seeks to put the Council in a position where Council Housing remains a sustainable form of tenure offering good quality housing with robust tenant rights at a rental level significantly below that available in the private rented sector. In order to achieve this objective - against a background of reduced income - it will, however, be necessary to secure further cost efficiencies against a background of an already low cost service, in order to continue to protect services to tenants and ensure our properties are maintained at the Decent Homes standard.

Budgets 2018/19 to 2020/21

15. In line with established good practice the MTFP sets out the Council's projected financial position over a 4 year period. The forecasts in respect of the latter three years are effectively based upon a roll forward of the budgets in respect of next financial year. The major change in assumptions is that the Government's rent policy from 2020/21 will allow a return to rent increase in line with inflation. With respect to debt repayments these will rise to £1.272m in 2018/19, followed by £1.772m in the two latter years of the proposed MTFP. While given the level of other pressures on the HRA the level of debt repayment has needed to be reduced the policy of continuing to repay debt at this stage of the Business Plan is crucial both to reducing borrowing costs and in order to build up the funding necessary to finance an accelerated programme of renovation work which will be necessary in the later years of the 30 Year Business Plan. If debt is not lowered at this stage then the funding will not be available to replace bathrooms, kitchens, roofs, doors and windows as these major investments become necessary.

16. Within the budgets in respect of these latter three years the key assumptions that are made are as follows :

- The Council applies the Government's policy that rents in the social housing sector are reduced by 1% a year for a period of 4 years starting in April 2016, with a resumption of inflation linked rent increases applying from April 2020.
- Interest rates remain low and stable with a rise in Bank Rate – which determines short term borrowing and investment costs – in the region of 1%.
- That salary costs rise by 1% per annum across the period of the current MTFP.
- Employer superannuation contributions increase by 1% with effect from April 2017 and remain unchanged over the period of the current MTFP. A similar assumption is made is respect of the lump sum deficit recovery where an increase takes effect from April 2017.
- Only a limited allowance in respect of the Apprentice Levy of 1% of payroll costs which it is planned to meet from within existing budgets recognising the high level of training already undertaken by the housing service.
- With regard to inflation specific budget heads such as energy costs and business rates have been amended to reflect anticipated price changes. Given the recent fall in the exchange rate of sterling this position will need to be monitored carefully. While there will be increased costs pressures arising from the fall in the value of sterling it is planned to offset these by efficiencies achieved within the service.

Fees and Charges

17. Although the main source of income for the HRA is property rents the HRA is also dependent for its financial sustainability upon a range of other charges. These charges are now set in the light of an agreed principle that wherever possible the Council should apply the principle that charges for services should reflect the cost of providing those services.

18. A schedule of the proposed charges is set out in Table 3 to this Appendix. For the next financial year the majority of charges are recommended to be increased by a figure of 1%. The one exemption to this general level is in respect of the mobile (self funded) wardens service where an increase of 11.7% is recommended, reflecting the impact of the reduction in the level of Supporting People grant support.

19. There is a new charges proposed for the provision and maintenance of fences and sheds at New Bolsover Model Village. Tenants in other Council housing are required to take responsibility for providing and maintaining these items. With regard to New Bolsover these items need to be in keeping with the heritage character of the village and accordingly provision and maintenance by the Council is the appropriate option in this instance. To reflect the cost of providing this additional service a charge of £2 a week is proposed. It should be noted that this charge would only apply to new tenants moving into the village as they will be aware that this charge will need to be met before entering into a tenancy.

20. With respect to heating costs in Sheltered Housing, or in those properties with communal heating scheme these have been influenced by a review undertaken by the Customer Service and Transformation Scrutiny Committee. Executive at its meeting of 30th January gave careful consideration to the outcome of the Scrutiny review with a revised schedule of heating charges being agreed at that meeting. That schedule is included within the details given in Table 3 to this Appendix. A key outcome of the work undertaken is that on the basis on the recommended approach all tenants will benefit from a reduction in their heating charge for 2017/18 as against charges in 2016/17.

Level of HRA Balances

21. Given the greater level of uncertainty associated with a localised HRA the Council agreed an objective of working towards general balances of £2m in order to provide an appropriate level of financial resilience to the account. The financial projections given in Appendix 1 (summarised below) show that the level of HRA balances will be maintained at a figure in excess of £1.9m. At this level of HRA balances there is effectively a reserve of just below £400 per property. In the light of the HRA Risk Register set out in Table 2 below the Chief Financial Officer considers this to be an adequate level. In addition to the HRA General Reserve it should be noted that there are capital reserves in respect of the Major Repairs Reserve, the Development Reserve and the Vehicle Reserve. While these are significant amounts it should be noted that they are effectively contractually committed to support Approved schemes within the Council's HRA capital programme.

HRA Risk Register

22. A financial Risk Assessment is set out in Table 3, which outlines the risks, the mitigation which is in place, the potential impact and the probability of the event occurring in order to arrive at a notional calculation concerning the potential financial impact of the risks which the Council is currently facing. This indicates that the identified risks which the Council's HRA is currently managing amount to £2m. Given that there are estimated HRA general balances across the

period of between £1.9m and £2m there would appear to be a reasonable level of cover available for the level of identified risk.

22. The assessment concerning the level of risk is essentially used for two purposes. In the first place an understanding of the risks which the Council faces is crucial in agreeing an appropriate level of financial reserves which are required. Secondly, the identification of the risks is the first stage in the process of more effectively managing, or of mitigating those risks. By identifying the risks it is possible to avoid them, to insure against them, to transfer the risk, or most likely actions can be taken to reduce or to mitigate the risk. The Council's Financial Risk Register is closely linked to both the Strategic and Operational Risk Registers. The Council has in place a comprehensive approach to Risk Management which is reported on a regular basis to Executive, and this process will continue to be utilised in order to manage the key financial risks.

23. With the reformed or localised HRA well established there has been a change in the nature of the strategic risks facing the HRA. While the original objective was that the HRA should benefit from greater financial certainty as annual financial settlements from central government stopped, this has been undermined by Government changing both rent setting policy, the right to buy and other legislation in a manner which places increased financial pressure on the HRA. The new localised arrangements, however, clearly require that the Council ensures the HRA continues to be sustainable and stable by maintaining and delivering a robust 30 year Business Plan. The HRA Business Plan and Treasury Management Strategy are both crucial elements in mitigating the risk of financial instability or non-sustainability for our Council housing stock. Both our tenants and the Council have a greater degree of influence under the new system but this increased level of local influence operates within the context of a framework where rent levels continue to be set nationally, legislative changes have major impacts, while the housing stock is required to meet the Decent Homes standard, and where a continued good level of service needs to be delivered to local tenants.

24. While much has been made of the difficulties experienced by local authority housing operations under the previous system as a result of the fact that financial resources were only made available on an annual basis, it needs to be recognised that the previous system also had important flexibilities built into it. In particular the annual settlement acknowledged issues such as reductions in the level of stock arising from demolition, transfer and right to buy, while it also took account of changes in the costs of operating a housing service. These risks were effectively those of central government and the national housing pool. With the introduction of HRA reform these risks now need to be managed locally, and they emphasise the importance of robust local planning and financial control in the effective management of our Housing stock.

RECOMMENDATIONS

25. The recommendations arising from this Appendix are set out in section 6 of the covering report.