

**RECOMMENDATION FROM  
STRATEGY AND RESOURCES COMMITTEE  
TO COUNCIL ON 25 JANUARY 2018**

**AGENDA  
ITEM NO**

**5a**

This is a copy of the Agenda Item 8a report to the Committee on 18  
January 2018

<b>Report Title</b>	<b>HOUSING REVENUE ACCOUNT (HRA) BUDGET 2018/19 AND MEDIUM TERM FINANCIAL PLAN 2018/19 – 2021/22</b>
<b>Purpose of Report</b>	To consider the HRA's financial position over the medium term and set a budget for the HRA for 2018/19.
<b>Decision(s)</b>	<p><b>The Committee RECOMMENDS to Council:</b></p> <p>(1) The revised HRA budget for 2017/18 and original budget for 2018/19 are approved; and</p> <p>(2) The movement to and from balances and capital reserves as detailed in Appendices B and C are approved; and</p> <p>(3) That from 1 April 2018:</p> <p style="margin-left: 20px;">i) Social rents and affordable rents are decreased by 1% (equivalent to 81p at the average rent level), as calculated in accordance with legislation</p> <p style="margin-left: 20px;">ii) Garage rents are increased by 3%</p> <p style="margin-left: 20px;">iii) Landlord sheltered housing service charges are increased by 3%</p> <p style="margin-left: 20px;">iv) Other landlord service charges are increased by 3%; and</p> <p>(4) That the HRA Capital Programme for 2017/18 to 2021/22, as detailed in Appendix C, are included in the Council's Capital Programme</p>
<b>Consultation and Feedback</b>	Budget holders and senior managers

<p><b>Financial Implications and Risk Assessment</b></p>	<p>The report sets out the medium term financial forecast for the HRA over the next 4 years. Revenue and Capital budgets have been reviewed with the MTFP maintaining minimum balances of £1.5m over the medium term. Whilst the overall level of expenditure across the HRA is reducing from £22.7m to £21.5m, the continued 1% reduction in social rents places the HRA under significant financial pressure.</p> <p>The HRA's MTFP is financed in part through use of reserves and capital receipts. There is some risk to the HRA around the timing of capital receipts to fund elements of the capital programme. This may mean the HRA has to amend its spending plans during subsequent financial years.</p> <p>A number of risks and uncertainties remain with the MTFP forecasts, and these are set out in paragraphs 7.2 to 7.13 in the report.</p> <p>Whilst there has been an announcement concerning social rents for a 5-year beyond from 2020/21 (CPI +1%), uncertainty remains beyond this period. The 3- year financial plan is being updated, but a useful graph is included in the report highlighting the impact of a change in social rent assumptions (CPI +1% continuing over the 30 years, vs CPI only beyond 2025).</p> <p>David Stanley – Accountancy Manager  Tel: 01453 754100  Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a></p>
<p><b>Legal Implications</b></p>	<p>This specific report was reviewed by Legal Services as it was submitted to the Housing Committee on 12 December 2017. Advice provided was as follows:</p> <ul style="list-style-type: none"> <li>• This report forms part of the budget setting process for 2018/19. In order to set its budget, the Council is required (amongst other things) to calculate its estimated expenditure and income which will be charged / allocated to its Housing Revenue Account.</li> <li>• With regard to recommendation (3) in January 2017, it was resolved by the Committee that a review should be undertaken of the Council's social rent setting options and for there to be a report back to Committee in June 2017. Pending completion of this review and consideration of the options by the Committee, the recommendations in the current report set out rent proposals in line with the Welfare Reform and Work Act 2016 which requires the Council to reduce social housing rents payable by individual tenants by 1% each year from 2016 to</li> </ul>

	<p>2019.</p> <ul style="list-style-type: none"> <li>Consistent with the legal requirements regarding the setting of the budget, it is essential that the Committee (taking account of the professional finance advice provided) is satisfied that its recommendations for the revised year's HRA budget and next year's budget are appropriate. (Ref: rc2711d2811) (Ref:rc10118d4118)</li> </ul> <p>K Trickey, Head of Legal Services Email: karen.trickey@stroud.gov.uk</p>
<b>Report Author</b>	Lucy Clothier, Principal Accountant Tel: 01453 754343 Email: lucy.clothier@stroud.gov.uk
<b>Options</b>	<ul style="list-style-type: none"> <li>a) Reduce or increase capital and revenue expenditure</li> <li>b) Reduce dwelling rents</li> <li>c) Reduce or increase landlord service charges</li> </ul>
<b>Performance Management Follow Up</b>	<p>Budget Monitoring report to Housing Committee in March 2018</p> <p>Outturn report to Strategy and Resources in May 2018</p>
<b>Background Papers/ Appendices</b>	

## 1. Executive Summary

- 1.1 It is recommended that social and affordable rents be decreased by 1% (equivalent to 81p per week at the average rent level), as calculated in accordance with legislation.
- 1.2 Increases of 3% are proposed for garage rents, general needs service charges and sheltered housing service charges, in line with inflation.
- 1.3 The budget proposals included in this report would enable the Council to set a balanced budget for 2018/19. This includes a transfer from HRA General Reserves of £0.125m.
- 1.4 HRA balances are planned to be maintained at £1.5m over the MTFP period.
- 1.5 However, the longer term position is greatly affected by external factors such as nationally set rent guidance and additional legislation.

## 2. HRA Budget and Medium Term Financial Plan

- 2.1 The MTFP proposes a revenue expenditure budget of £22.710m in 2018/19, funded by income of £22.535m and use of reserves, including earmarked reserves, of £0.175m. This reduces to an expenditure of £21.532m in 2021/22.

Table 1 – Summary of HRA MTFP

	2017/18 Base £000s	2017/18 Revised £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
Dwelling rents	(21,106)	(21,106)	(20,829)	(20,443)	(20,925)	(21,384)
Other income	(1,957)	(1,859)	(1,706)	(1,579)	(1,606)	(1,627)
<b>Total Income</b>	<b>(23,063)</b>	<b>(22,965)</b>	<b>(22,535)</b>	<b>(22,022)</b>	<b>(22,531)</b>	<b>(23,011)</b>
Expenditure	16,451	16,890	17,369	17,490	17,748	17,247
Other costs	9,197	8,067	5,341	3,954	4,281	4,285
<b>Total expenditure</b>	<b>25,648</b>	<b>24,957</b>	<b>22,710</b>	<b>21,444</b>	<b>22,029</b>	<b>21,532</b>
Transfers to/(from) EMR	503	1,586	(50)	394	696	(263)
<b>Transfer to/(from) General Reserves</b>	<b>(3,088)</b>	<b>(3,578)</b>	<b>(125)</b>	<b>184</b>	<b>(194)</b>	<b>1,742</b>
<b>HRA General Reserves Balance c/f</b>	<b>2,125</b>	<b>1,635</b>	<b>1,510</b>	<b>1,694</b>	<b>1,500</b>	<b>3,242</b>

2.2 A more detailed analysis of the HRA MTFP can be found in Appendix B

### 3. Proposed Rent and Service Charges 2018/19

- 3.1 In the MTFP social and affordable rents for 2018/19 have been reduced by 1% in line with the legislation. This reduces average rents by £0.81 per week, from £81.52, to £80.71.
- 3.2 During the four year period of rent reduction set out in the Housing and Planning Act, rents must be set with at least a 1% rent reduction. Members could choose to reduce rents by more than 1%. Each additional 0.5% reduction would reduce the average weekly rent for tenants by £0.41 per week, or £21.32 per year, and decrease dwelling rent income to the HRA by approximately £104k per year. If Members chose to implement further reductions, the corresponding amount would need to be funded from reductions in existing services.
- 3.3 On becoming vacant, dwellings at social rent are being relet at the Target Rent, a national rent calculation for social housing which is designed to give fair and consistent rents across all local authority and housing association stock. Currently 88% of tenants have rents below the Target Rent. Of those, the average difference is £2.21 per week. This is equivalent to loss of income of approximately £474k per year. This figure will reduce as dwellings become void and are relet, but as existing tenancies will be unaffected it will be a very gradual change.
- 3.4 Shared ownership rents are set to increase in line with the inflationary uplifts set out in each lease.
- 3.5 As set out in Appendix A, all fees and charges are recommended to increase by 3%, in line with inflation.
- 3.6 A review of landlord service charges will be undertaken by Housing Services, starting in 2018, to ensure charges reflect the cost of providing the services.
- 3.7 Garage income is expected to reduce to nil over 2018/19 and 2019/20 as garages are taken out of use, as approved by Housing Committee.

#### 4. Self Financing Debt and Interest Rates

- 4.1 The HRA has now reached its debt cap, having utilised the full available headroom awarded as part of the self financing determination. Therefore no further borrowing is currently possible, with any further investment in new or existing stock needing to come from existing resources (eg budget savings), or capital receipts.
- 4.2 The Autumn Budget announced the ‘lifting of borrowing caps for councils in areas of high affordability pressure’. The detail of this is not yet known, but it is expected that any additional borrowing capacity will be awarded through a bidding arrangement with DCLG, and would be phased over a number of years. Further detail will be given to members when it is available. Members should also be mindful that the cost of any additional borrowing would need to be funded from income associated with the borrowing. Otherwise subsidy would be needed from other resources, therefore reducing existing services.
- 4.3 It is recommended to continue to pay only interest on the £102.5m of borrowing the HRA has taken. A £2m loan is due for repayment in 2018/19, and should members wish to repay this loan, equivalent savings would need to be found within the MTFP which would significantly affect the delivery of services.

#### 5. Pay and Price Inflation

- 5.1 Pay inflation has been provided for in the MTFP at a rate of 2%. This is a change from the position reported to Housing Committee (in which it was included at 1%) with the additional cost funded from a staffing contingency and so does not affect the bottom line of the HRA.
- 5.2 Provision has been made in the HRA MTFP for price inflation on major contracts at a rate of 3%.

Table 2: Summary of pay and price inflation in the MTFP

	2019/20	2020/21	2021/22
	£000s	£000s	£000s
Revenue Contract/Non-Pay Inflation	102	207	316
Capital Works Contract Inflation	136	290	432
Pay Inflation (2% increase)	65	130	194
<b>Total</b>	<b>303</b>	<b>627</b>	<b>942</b>

#### 6. Material Assumptions Made in the HRA MTFP

- 6.1 The MTFP forecast is made under a number of assumptions. The main ones of note are summarised below:

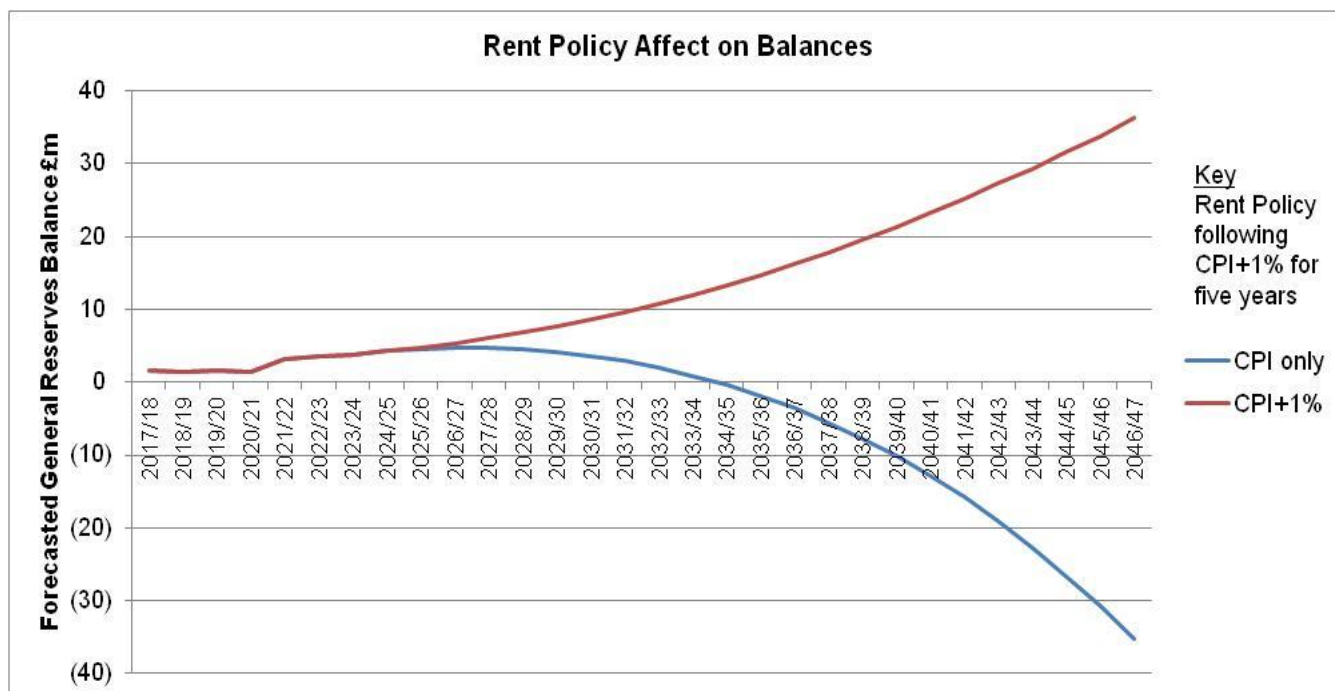
- Rents are decreased by 1% across all social and affordable rented housing stock. On average this will reduce rents by 81p per week, or £42.12 per year.
- Void levels of 2% in general needs, and 5% in sheltered housing properties are assumed (in schemes not affected by the Sheltered Housing Modernisation Programme).
- 30 Right to Buy sales a year have been assumed in terms of rent loss
- HRA balances will be maintained at £1.5m over the MTFP period in order provide resilience against the negative financial impact of future legislative changes.

## 7. Risks and Uncertainties

- 7.1 The HRA faces a number of risks and uncertainties, both external to the Council and internal changes.
- 7.2 Pay award – pay inflation has been included over the medium term at 2% in line with the General Fund. Should the pay award be higher than this, the MTFP would be affected.
- 7.3 Capital receipts – the MTFP includes the use of capital receipts to fund the New Build and Development Programme and the Sheltered Housing Modernisation. Should these assets not be sold, or sold for a lower price than expected, alternative funding would need to be allocated for the schemes to progress as planned. However, should a higher capital receipt be achieved, this would provide additional funding for other projects.
- 7.4 Rents - it is now known that after the four year rent reduction (the final year of which is 2019/20), rents will return to the previous rent guidance of Consumer Price Index (CPI) + 1%. Although it is positive that the rental increase is agreed, members should be mindful that rent guidance has previously been changed at short notice.

The current 30 year Delivery Plan includes the continuation of CPI+1% rent increases over the 30 year period, which may not be sustainable in the long term. Above inflationary rental increases in affordable housing, could mean that rents move closer to market rents, leaving them no longer affordable for existing and future tenants.

The below graph shows the impact on HRA general reserves should rents be linked to CPI only from 2025/26. CPI is assumed at 2%.



7.5 This shows the risk posed by a difference in rent of only 1% per year.

7.6 Although a significant risk over the longer term, it does not represent a considerable risk over the medium term as balances are forecasted to remain above the minimum recommended balance of £1.5m until 2032/33. Nevertheless it should be considered as part of the full review of the HRA 30 year position.

7.7 Higher Value Asset Sales – the sale of vacant social housing with the proceeds being returned to Government to fund the extension of Right to Buy in Housing Associations.

The regulations have not yet been published, but it is expected that an amount will be payable to Government based on the value of SDC housing stock. It is expected that it will be determined locally how this funding is raised, and therefore it will not necessarily be funded through the sale of the higher value housing. The financial value is not yet known.

As details have not yet been announced, no allowance has been included in the MTFP for 2018/19. An assumption that rental income will be lost on 12 sales per year has been included from 2019/20.

7.8 Rent caps – it has been announced that the Local Housing Allowance (LHA) cap will no longer be applicable to social housing, but it is not yet known if/what system would replace it.

7.9 Universal Credit – the full impact of Universal Credit is not yet known. An allowance for £100k additional provision for bad debt (from £100k to

£200k per year) is included in the MTFP for three years from 2018/19 to allow for non payment of rents and charges.

- 7.10 Fixed term tenancies – the requirement to review tenancies every five years (with allowances for tenants with a disability or school age children) will impact on the way tenancies are managed. It could also lead to an increase in Right to Buys as tenants are able to exercise their Right to Buy after three years and some tenants may wish to purchase the property before their tenancy expires.
- 7.11 Right to Buy Receipts – the MTFP shows that 2018/19 will be the final year of the Council's New Homes and Regeneration Programme. The Sheltered Modernisation Programme will provide some new housing, but much of the programme will not be eligible for the use of RTB receipts as it is improving existing dwellings.

Members approved an additional budget of £700k in 2017/18 in order to utilise RTB receipts. The limited ability to finance the remaining 70% of build costs means that the HRA is unlikely to be able to fully utilise all Right to Buy receipts going forward.

Where possible partnerships will be made with Registered Providers (RPs) to provide additional housing locally, but this still leaves the HRA at risk of having to repay any receipts not spent within the time frame, plus interest. This includes any receipts allocated to RPs, where they have experienced delays and have not met RTB deadlines.

Although it is hoped that any repayment of RTB receipts won't be required, there is a real risk that if internal spend is delayed, or if partnerships with RPs experience set backs, RTBs receipts may need to be returned with interest payments.

- 7.12 Interest rates – the HRA is largely sheltered from interest rate changes in the medium term as all of the current borrowing is at fixed interest rates. As loans become repayable, advice will be sought from our treasury advisors on the most advantageous approach to refinancing.
- 7.13 Insurance – The current insurance contract is due to be retendered in October 2018. It is currently expected that the cost of provision will increase due to the level of claims made in recent years. The HRA could consider lowering the insurance provision, and 'self insuring' for smaller claims. This could lower premiums, but would mean that additional spend would be required in repairs and maintenance. This will be reviewed as part of the retendering process.

## 8. **30 Year Finance Position**

- 8.1 A full review of the HRA 30 year position will be undertaken by the Housing Service, supported by finance, over the upcoming year in order to ensure the Housing service remains sustainable over the longer term.



## **9. Capital Programme**

- 9.1 A capital programme totalling £12.482m is proposed for 2018/19, reducing to £7.755m in 2021/22.
- 9.2 The Major Works budget has remained largely in line with the current programme. This programme will be reviewed using updated data from the ongoing stock condition surveys as part of the full 30 year position review.
- 9.3 A full breakdown of the capital programme can be found in Appendix C

## **10. New Homes and Regeneration Programme**

- 10.1 Despite the ongoing challenging financial environment, the Council remains committed to the New Homes and Regeneration Programme, and is on course to meet its target of 236 new homes.
- 10.2 The budget proposal for 2018/19 includes the reprofiling of the budget, with £3.004m now expected to be delivered in 2018/19.
- 10.3 Further detail of the programme can be found in the Capital Project Monitoring report, also being reported to Housing Committee.

## **11. Sheltered Housing Modernisation**

- 11.1 Budgets have been included in the MTFP for the Sheltered Modernisation Project. In 2018/19 the budget is to progress the development of new flats on the Tanners Piece site and to complete the modernisation works at Sherborne House, and two other green/amber sites.
- 11.2 The programme continues to be funded by a mix of revenue contributions, capital receipts (linked to the sheltered sites), and RTB receipts where eligible.

Table 3 – Sheltered Housing Summary

	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
<b>Expenditure</b>					
Revenue Costs	406	579	457	477	29
Red schemes - capital	31	1,700	13	0	1,500
Other schemes - capital	588	359	298	462	336
	<b>1,025</b>	<b>2,638</b>	<b>768</b>	<b>939</b>	<b>1,865</b>
<b>Financed by</b>					
Revenue - earmarked reserves	600	2,128	464	539	115
Capital receipts - sheltered	262		300	400	1,300
RTB receipts	163	510	4	0	450
	<b>1,025</b>	<b>2,638</b>	<b>768</b>	<b>939</b>	<b>1,865</b>

11.3 The capital receipts financing line includes the capital receipts for the sale of Ringfield Close, Dryleaze Court and Cambridge House. Should these capital receipts not be realised, alternative funding would need to be found.

11.4 Funding has been allocated in the MTFP to finance the current five year programme, but further funding will need to be allocated in future years if members wish the project to continue.

11.5 Further detail on the Sheltered Modernisation Project can be found in the Capital Project Monitoring report, also being reported to Housing Committee.

### Proposed Level of HRA Rents and Service Charges 2018/19

<b>Proposed level of rents and service charges (on a weekly basis over 52 weeks)</b>	<b>Current 2017/18 £</b>	<b>Proposed 2018/19 £</b>	<b>Increase/ Decrease £</b>	<b>Increase/ Decrease %</b>
<b>Rents</b>				
Dwelling rents (average)	81.52	80.71	-0.81	-1%
Garage rents (excl VAT which is chargeable to non tenants only)	12.09	12.45	0.36	3%
<b>Landlord Service Charges (charged where applicable)</b>				
TV relay (communal aerials – basic IRS)	0.34	0.35	0.01	3%
TV relay (communal aerials – comprehensive IRS)	0.86	0.89	0.03	3%
Cleaning charges (average)	2.37	2.45	0.08	3%
District heating (average)	7.62	7.85	0.23	3%
Water charges (average)	2.51	2.59	0.08	3%
Sheltered Housing	23.98	24.70	0.72	3%

## HRA Medium Term Financial Plan 2017/18 to 2021/11

	2017/18 Base £000s	2017/18 Revised £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
<b>Income</b>						
Dwelling rents	(21,106)	(21,106)	(20,829)	(20,443)	(20,925)	(21,384)
Non dwelling rents	(395)	(395)	(228)	(114)	(116)	(118)
Charges for services and facilities	(1,184)	(1,086)	(1,020)	(1,007)	(1,032)	(1,051)
Contributions towards charges	(378)	(378)	(458)	(458)	(458)	(458)
<b>Total Income</b>	<b>(23,063)</b>	<b>(22,965)</b>	<b>(22,535)</b>	<b>(22,022)</b>	<b>(22,531)</b>	<b>(23,011)</b>
<b>Expenditure</b>						
Repairs and maintenance	3,657	3,642	3,678	3,789	3,894	3,933
Supervision and management	5,007	4,940	5,129	5,216	5,337	5,333
Special services	2,531	2,604	2,758	2,681	2,713	2,277
Depreciation	5,156	5,604	5,604	5,604	5,604	5,604
Provision for bad debt	100	100	200	200	200	100
	16,451	16,890	17,369	17,490	17,748	17,247
<b>Other income and expenditure</b>						
RCCO	5,406	4,276	1,549	146	475	481
HRA share of CDC	315	315	304	304	304	304
Interest payable	3,501	3,501	3,513	3,532	3,532	3,532
Investment income	(25)	(25)	(25)	(28)	(30)	(32)
Provision for repayment of debt	0	0	0	0	0	0
<b>Total Expenditure</b>	<b>9,197</b>	<b>8,067</b>	<b>5,341</b>	<b>3,954</b>	<b>4,281</b>	<b>4,285</b>
<b>Transfers to/from reserves</b>						
Transfers to/(from) earmarked reserves	503	1,586	(50)	394	696	(263)
Transfers to/(from) general reserves	(3,088)	(3,578)	(125)	184	(194)	1,742
<b>Total Transfers to/from reserves</b>	<b>(2,585)</b>	<b>(1,992)</b>	<b>(175)</b>	<b>578</b>	<b>502</b>	<b>1,479</b>
<b>Net revenue position</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

	2017/18 Base £000s	2017/18 Revised £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
<b>General Reserves</b>						
Opening balance	5,213	5,213	1,635	1,510	1,694	1,500
Transfers (to)/from	(3,088)	(3,578)	(125)	184	(194)	1,742
<b>Closing balance</b>	<b>2,125</b>	<b>1,635</b>	<b>1,510</b>	<b>1,694</b>	<b>1,500</b>	<b>3,242</b>

## HRA Capital Programme 2017/18 to 2021/22

HRA Capital Programme	2017/18 Base £000s	2017/18 Revised £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
<b>Major Works</b>						
Central Heating	690	690	710	732	754	777
Disabled Adaptations	308	308	315	324	334	344
Kitchens and Bathrooms	1545	1545	1,590	1090	1123	1156
Major Works	515	515	424	382	394	406
Asbestos/Radon	453	453	257	263	271	279
Doors and Windows	515	515	530	546	563	580
Electrical Works	206	206	212	219	0	0
Damp Works/Insulation	124	124	127	131	135	81
Non-Traditional Properties	340	340	350	361	371	383
Door Entry	206	206	212	219	225	0
Suited Locks			148	0	0	0
External Works	1700	1700	1,750	1803	1857	1913
Lifts			32	33	0	0
<b>Total Major Works</b>	<b>6,602</b>	<b>6,602</b>	<b>6,657</b>	<b>6,103</b>	<b>6,027</b>	<b>5,919</b>
<b>New Homes and Regeneration</b>						
Woolaways-Top of Town Phase 3	401	203				
Woolaways-Top of Town Phase 4	1,206	485				
Southbank, Woodchester	578	8	992			
Chapel Street, Cam	579	535				
New Homes Contingency	250	17	578			
Ship Inn	1,500	19	1,434			
RTB Acquisitions		700				
<b>Total New Homes and Regeneration</b>	<b>4,514</b>	<b>1,967</b>	<b>3,004</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Sheltered Housing Modernisation</b>						
Red Scheme - Tanners Piece	780	31	1,700	13		
Red Scheme - Glebelands						1,500
Ex Warden Conversions	523	515				
Green/Amber Schemes	63	74	359	298	462	336
<b>Total Sheltered Housing Modernisation</b>	<b>1366</b>	<b>620</b>	<b>2,059</b>	<b>311</b>	<b>462</b>	<b>1,836</b>
<b>Total HRA Capital Programme</b>	<b>12,482</b>	<b>9,189</b>	<b>11,720</b>	<b>6,414</b>	<b>6,489</b>	<b>7,755</b>

	2017/18 Base £000s	2017/18 Revised £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
<b>HRA Capital Funding</b>						
Revenue Funding (including depreciation)	10,562	7,286	7,153	5,750	6,079	6,005
Right to Buy Receipts	283	541	510	4		450
HRA Capital Receipts	1,312	1,246	1,555	300	400	1,300
HCA Grant Funding	325	116	198			
HRA Reserves			2,304	360	10	
Borrowing						
<b>Total Capital Funding</b>	<b>12,482</b>	<b>9,189</b>	<b>11,720</b>	<b>6,414</b>	<b>6,489</b>	<b>7,755</b>