STROUD DISTRICT COUNCIL

AGENDA ITEM NO

HOUSING COMMITTEE

24 JANUARY 2017

6

Report Title	**HOUSING REVENUE ACCOUNT (HRA) BUDGET 2017/18 AND MEDIUM TERM FINANCIAL PLAN 2016/17 – 2020/21**
Purpose of Report	To consider the HRA's financial position over the medium term and set a budget for the HRA for 2017/18.
Decision(s)	**The Committee RECOMMENDS to Strategy and Resources Committee:** a) (i) The revised HRA budget for 2016/17 and original HRA revenue and capital budgets for 2017/18 are approved; (ii) The movements to and from balances and capital reserve as detailed in Appendices B and C are approved b) That from 01 April 2017: i) Social rents and affordable rents are decreased by 1% (equivalent to 83p per week at the average rent level), as calculated in accordance with legislation. ii) Garage rents are increased by 2% (equivalent to 24p per week), as detailed in paragraph 28 and Appendix A); iii) Other landlord service charges at general needs properties are increased by between 2% and 3%, as detailed in paragraph 29 and Appendix A; iv) Landlord service charges at Sheltered Housing Schemes are increased by 2% (equivalent to 47p per week). As detailed in paragraph 30 and Appendix A. c) That the Capital Programme for 2016/17 to 2020/21 be approved, as detailed in Appendix C.

Consultation and Feedback	• Budget holders and senior managers • Residents and Business telephone surveys (as presented to a members seminar on the 7th December) • Budget workshops for Chairs & Vice Chairs of service committees and Administration group leaders
Financial Implications and Risk Assessment	The report sets out the medium term financial forecast for the HRA over the next 4 years. Revenue and Capital budgets have been reviewed in the light of the Action Plan and the need to maintain balances over the medium term. Whilst the overall level of expenditure across the HRA is reducing from £26m to £22m, the continued 1% reduction in social rents places the HRA under significant financial pressure. The HRA's MTFP is financed in part through application of capital receipts (£3.950m in 2017/18 to 2019/20). There is some risk to the HRA around the timing of capital receipts and the realisation of anticipated level of receipts. This may mean the HRA has to amend its spending plans during subsequent financial years. A number of risks and uncertainties remain with the MTFP forecasts, given the potential impact of the delayed extension of Right to Buy (RTB) to housing association tenants in particular. Uncertainty remains inherent in the forecast for 2020/21 when the current 1% reduction in social rents policy is due to end. An assumption has been made within the MTFP that the council will be able to increase rents in accordance with the previous guidance (CPI +1%). David Stanley – Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
Legal Implications	This report forms part of the budget setting process for 2017/18 which is connected to the Council's duty to set its council tax for 2017/18. 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. This element of the budget setting process is addressed within this report.

	The Council's chief finance officer is required to report on the robustness of the estimates and the adequacy of the proposed financial reserves. The Council is also under a duty to prevent a debit balance on the HRA for each accounting year and in doing so must keep under review the proposals in place regarding the income and expenditure on its assets held for housing related purposes. The Council must also revise the proposals from time to time to ensure the relevant duty continues to be met. It is therefore essential based upon the professional finance advice provided, that when the Committee makes its recommendations to Strategy and Resources (which will, in turn, form the basis of 2017/18 budget recommendations to Council) that it is satisfied that the proposals for the revised year's HRA budget and next year's budget are appropriate. Karen Trickey, Legal Services Manager Email: karen.trickey@stroud.gov.uk
Report Author	David Stanley – Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
Options	a) Reduce or increase capital and revenue expenditure b) Defer the proposed timescales for replacement homes or capital improvements
Performance Management Follow Up	Budget Monitoring report to Housing committee in March 2017. Outturn report to Strategy & Resources Committee in May 2017.

Background

1. The Housing Revenue Account (HRA) Outturn report in June 2016 highlighted a significant issue concerning the level of HRA balances reported to members during 2015/16. As a result, HRA balances had been overstated by £909k.
2. In response to this issue, the committee considered the HRA financial position at its meeting in September 2016 and agreed the HRA Action Plan to maintain HRA balances over the medium term. The Action Plan report and the Budget Monitor report identified a number of budgets that would not be spent in 2016/17 with a need to reprofile significant elements of the capital programme.

3. This report brings together the revised 2016/17 and original 2017/18 budgets for the HRA and projects forward over the medium term to allow the committee to make informed decisions about setting the budget for 2017/18 in full knowledge of the risks and uncertainties faced in future years.

4. **Due to the volume of information and complexity of some of the issues within this report, it would be helpful where members have questions on matters of detail if they could be referred to the report author or appropriate budget holder prior to the meeting.**

Executive Summary

5. Social rents and affordable rents be decreased by 1% (equivalent to 83p per week at the average rent level), as calculated in accordance with legislation.

6. Increases of 2% for garage rents, general needs service charges and sheltered housing service charges are proposed.

7. HRA finances still constrained largely due to the ongoing impact of the 1% decrease in social rents until 2019/20. Uncertainty remains what will happen to rent-setting policy or guidance after this.

8. HRA balances have recovered during 2016/17, and are planned to be maintained at £1.5m over the MTFP period.

9. HRA expenditure plans financed in part through application of capital receipts (£3.950m in 2017/18 to 2019/20). Some risk to HRA around timing of receipt and realisation of anticipated level of receipts may mean HRA spending plans will need to adapt in-year.

Government Social Housing Policy/Housing and Planning Act

10. The 2017/18 HRA budget needs to be viewed in the context of changes in Government policy towards social housing. From April 2016 a mandatory reduction of 1% for all social and affordable rent properties for each of the next 4 years was introduced. This replaced the previous recommended approach of an increase based on the Consumer Price Index (CPI) + growth allowance of up to 1%. This reduced rental income by approximately £9m over the 4 year period 2016/17 to 2019/20.

11. The Housing and Planning Act received royal assent in May 2016. A number of policy changes were legislated through the act including the ending of secure tenancies and replacement with fixed term tenancies which we expect to be introduced during 2017, promotion of self-build and custom build, and a number of provisions concerning social housing.

12. It was announced in November 2016 that the 'Pay to Stay' policy would not proceed nationally. The policy would have applied to tenants earning more than £31,000 per annum and seen their rents move from social rents to market rents. The Government have not mandated the policy change so it could be implemented locally. However, the budget

estimates set out in this report have been prepared on the basis that the Council does not implement locally.

13. The Government also announced that the national roll-out of the Right to Buy for housing association tenants will not take place until after April 2018 at the earliest. This also means that the need for local authorities to sell-off higher value void properties (to pay for the levy) has also been delayed. There was an expectation that the Council would have to find ways to fund the levy in 2017/18.

14. Whilst some of the negative impact on the HRA financial position has been removed, considerable uncertainty remains. The delay in the roll-out of the extension to RTB does afford the HRA some breathing space. The Government has not provided any details at this stage as to the potential value of the levy payment and how it would be calculated. The risk to the HRA is that the Government would seek a levy payment in future years once the national roll-out has commenced, with the HRA needing to finance the levy before asset sales are realised.

15. The continued uncertainty around social rent policy beyond the 4-year 1% reduction period is of particular concern. The MTFP has assumed that from 2020/21 social rent policy reverts to the Government's previous guidance around social rents of a CPI + 1% increase (i.e. CPI at 2% + 1% growth = 3% rent increase).

16. From 2020/21 Universal Credit and direct payments to tenants on benefit will be fully implemented. Steps are already being taken to support those tenants subject to the policy in order to manage their finances effectively and by doing so sustain their tenancy.

17. From April 2016, five year fixed term tenancies will be introduced for new tenants only. A tenant qualifies for the 'Right to Buy' after 3 years so there is potential the authority will see an increase in Right to Buy applications arising from fixed term tenants wishing to purchase the property before their tenancy expires.

Priorities for the HRA

18. Despite the financial constraints faced by the HRA over the medium term, the Council remains committed to delivering new affordable homes in the district and maximising the use of the assets available. The priorities in terms of resources available are as follows:

- Delivery of the Sheltered Housing Modernisation programme
- Continued investment in our existing housing stock

19. To achieve this, both the capital and revenue budgets have been reviewed. Some capital schemes have been re-prioritised or re-profiled and deferred to future years to ensure efficiency, effectiveness and value for money

20. The Council needs to maintain a level of balances in the HRA that provides some resilience for the many risks and uncertainties that are clearly set out in the report. New earmarked reserves have been

established so that any resources available over and above the general balances required can be set aside to enable the Council to achieve the priorities identified above.

HRA Budget and Medium Term Financial Plan

21. When the outturn position was reported to the committee in June 2016, the HRA was facing a significant reduction in available resources across the MTFP period due to a misstatement of HRA balances. It was anticipated that significant reductions in expenditure would need to be undertaken in order to ensure the HRA remained viable and to maintain balances over the medium term

22. An Action Plan was presented to the committee in September 2016 setting out the mitigation put in place to increase HRA balances in 2016/17. As a result of the decisions taken by Tenant Services (including Asset Management), the Action Plan and Budget Monitoring reports to Housing committee in September 2016 indicated that balances would recover sufficiently during 2016/17 due to deferring capital expenditure and anticipated capital receipts.

23. The HRA budget for 2016/17 has been revised significantly to reflect the current forecast position. The 2016/17 revised HRA net budget of £25.905m represents a reduction of £4.601m over the original budget as approved by Council in January 2016. The revised budget has largely been informed by updated outturn estimates from budget holders and are summarised in Appendix B.

24. Further budget changes may arise in year as Planned works programmes will continue to be validated in year prior to final sign off and issuing to contractors. Material changes to the MTFP budget profile will be reported to Housing Committee during 2017/18.

25. The HRA MTFP proposes an expenditure budget of £26.434m in 2017/18 reducing to £21.550m in 2020/21. A statement showing the movement from the 2016/17 original budget is shown in the table below, with a more detailed analysis of the HRA MTFP shown in Appendix B. The key assumptions made over the medium term are set out in more detail in the report below.

Table 1 – Summary HRA MTFP

HRA MTFP	2016/17 Original (£'000)	2016/17 Revised (£'000)	2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)
HRA Service Revenue Expenditure	9,501	9,709	9,918	9,945	9,960	9,908
Accounting Adjustments/Provisions	3,869	3,783	3,927	3,999	4,020	4,091
Inflationary pressures	0	0	299	649	980	1,303
Budget Pressures	0	0	0	126	176	225
Budget and Efficiency Savings	0	0	0	0	0	0
HRA Capital Expenditure	17,136	12,413	12,290	7,171	6,574	6,023
Proposed HRA Budget	**30,506**	**25,905**	**26,434**	**21,890**	**21,709**	**21,550**
Income from Rents	(22,151)	(21,980)	(21,496)	(21,183)	(20,838)	(21,225)
Other HRA Funding	(6,689)	(6,690)	(1,850)	(593)	(867)	(1,176)
Use of / addition to (-) working balances	**1,666**	**(2,765)**	**3,088**	**114**	**4**	**(851)**
HRA Working Balance c/f	**1,569**	**4,703**	**1,615**	**1,501**	**1,497**	**2,348**

26. Although it is covered in more detail in paragraphs 40-42 of the report, it is worth noting that the HRA is increasingly reliant upon utilising capital receipts and other financing sources given the continued reduction in social rents.

Proposed Rent and Service Charges for 2017/18

27. Social Rents have been reduced by 1% in line with legislation set out in the Housing and Planning Act. Social rents will be decreased by a further 1% for each of the following 2 years. Beyond that time it has been indicated, but is not certain, that rent increases will return to the previous recommendation of CPI plus 1%. The loss of control over rent setting continues to present a significant challenge to HRA income.

28. Garage rents are recommended to increase by 2%. This will in part mitigate the increasing costs of maintain the garage stock to a suitable condition. Further detailed work needs to be undertaken over the coming months regarding the garage stock, given the high level of voids and potential impact on HRA resources.

29. General needs services charges were not increased in 2016/17. It is recommended that these costs are increased by between 2% and 3% per annum.

30. Sheltered Housing service charges are recommended to increase by 2% (or 47 pence per week). Sheltered Housing service charges have not generally kept pace with the cost of running the service. Even with a 2% increase, there remains a £415k funding deficit for sheltered in 2017/18 which will be met, as in previous years, from other resources of the HRA.

Self Financing Debt and Interest Rates

31. By the end of 2016/17 the HRA will have utilised in full the additional self financing ‘headroom’ borrowing of £3.762m. This takes the HRA up to its debt cap, with little or no prospect of this being amended. In reaching the debt cap, the HRA will have to look for other sources of finance to fund any significant investment in new/existing stock/capital programmes (e.g. Capital receipts, revenue savings)

32. It is recommended to continue to repay only interest on the £98.7m of debt the HRA has taken. Although a £1m loan is due for repayment in 2018/19 and a further £2m in 2019/20, the difficulties presented by the financial pressure on the HRA suggest it would be favourable to renew these loans when they mature. Should members wish to repay the loans, savings equivalent to them would need to be found within the MTFP which would significantly affect the delivery of services.

Asset disposals/Capital Receipts

33. As highlighted in paragraph 26, the HRA is increasingly reliant upon utilising capital receipts and other financing sources given the continued reduction in social rents.

34. Members may recall from the January 2016 MTFP that a number of asset sales were planned (Land at Fountain Crescent, Queens Court), but due to uncertainty around the timing a potential value of the capital receipts, no allowance was made in the MTFP.

35. Considerable further work has taken place during the financial year to progress a number of asset sales.

36. The small sites and garages disposal programme is progressing and Committee received an update on this and other disposals in September 2015. More disposals are expected in the next financial year, but capital receipts will vary depending on their size, location and potential for redevelopment.

37. Two significant disposals proposed for 2017/18 are Queen’s Court, Thrupp (estimated market value in December 2015 was £1.5m+), and Fountain Crescent, Wotton-under-Edge. Terms have been agreed for a sale of this site to a registered provider at market value and the agreement will also utilise a proportion of the Council’s RTB receipts.

38. Dryleaze Court Wotton-under-Edge (market value guide price in June 2016 was £0.8m) is expected to be marketed in 2017 and 2 properties at Ringfield Close in Nailsworth, also part of the Sheltered Modernisation Programme, are currently on the market.

39. Further disposals of properties that are part of the New Build Programme are also expected to complete in the next financial year

40. It is proposed that the proceeds from asset sales are initially held on the balance sheet and the receipts are utilised to maintain HRA balances at £1.5m over the medium term.

41. This approach will help mitigate against the risk that some asset sales may tale longer than anticipated or where the value of the receipt is less than expected due to market conditions.

42. There is also a need to ensure an adequate level of capital receipts are held due to the underlying risk around the Government's extension of Right to Buy to housing association tenants. Whilst paragraph 13 of the report indicated a delay until at least April 2018, it would be prudent to retain a level of capital resource on the balance sheet to mitigate this risk.

Right to Buy receipts

43. Housing Committee considered a report on the use of Right to Buy receipts at their meeting in September 2016. Against the backdrop of the constrained HRA financial position, Stroud, in common with a number of other local authorities, is unable to finance the 70% of development costs that are required under the RTB rules.

44. The MTFP shows 2017/18 will be the final year of the council's New Homes and Regeneration Programme. As a result, there are no longer any eligible schemes to apply the pooled element of RTB receipt

45. Whilst the decision of the committee was to repay RTB receipts as they become due to mitigate effect of interest charges on the receipts from Government, officers have been working with local registered provider (Housing Associations) partners to ensure that RTB receipts can be retained and used locally for the provision of affordable housing.

46. Projections for the projected repayment of RTB receipts were included in the report to the committee in September. At the time of writing, the 3rd quarterly return on pooled RTB receipts is being prepared. An update on the likely profile of repayments will be provided to the committee in March 2017. The MTFP has made an allowance for interest payments on the returned receipts.

Local Government Pension Scheme

47. The level of the Council's contribution to the Local Government Pension Scheme (LGPS) is determined by the actuarial valuation that takes place every 3 years. A valuation was undertaken in March 2016, the outcome of which has been included in the MTFP.

48. As a result of the valuation, the employer's rate is increasing from 13.7% of gross pay to 18.0%. A further lump-sum payment is made to the pension fund in respect to funding liabilities arising from previous employees and the deficit position. This is decreasing from £2.083m in 2016/17 to £1.995m in 2017/18 and then rising by £0.275m per annum peaking at £2.544m by 2019/20. Approximately 26% of the lump-sum is funded by the HRA (£0.519m in 2017/18).

Pay and Price Inflation

49. In line with the Budget Strategy report to Strategy and Resources committee in October 2016, future years pay inflation has been provided for in the MTFP at a rate of 1%, in line with Government assumptions on public sector pay. Provision has also been made within the Council's budgets of the commitment to pay the Living Wage Foundation's guidance rate of £8.45 per hour.

50. Provision has been made in the HRA MTFP for price inflation on major contracts at a rate of 3.0% in future years reflecting the estimated inflation rate applicable to construction and other capital works. This is a significant increase in the level of inflation provision made within the HRA MTFP (around £2.9m over the medium term). As this is an estimate of future cost pressures, there is a risk of both over and under provision. This will be kept under review over the next few months, in light of recent Bank of England projections.

Material assumptions made in the HRA MTFP

51. 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 housing stock. On average this will reduce rents by 83p a week or £43.16 a year.
- HRA balances will be maintained at around £1.5m over the MTFP period to help provide resilience against the negative financial impact of future legislative changes
- 40 'Right to Buy' sales a year are assumed in terms of rent loss for 2016/17 and 30 per annum from 2017/18.
- Void levels of 2% on general needs properties and 5% of sheltered housing properties are assumed.

Budget & Efficiency Savings, productivity gains

52. The identification of budget savings and efficiencies is an important aspect in setting the HRA budget in future years. As outlined earlier in the report, the restriction placed upon rental income places greater emphasis on the HRA being able to deliver budget savings and efficiencies to deliver on its key priorities.

53. A review of the team structures and work processes within Tenant Services was undertaken, with an aim to increase productivity and deliver budget and efficiency savings over the medium term period.

54. A number of key changes have enabled the service to deliver a more streamlined process using current systems, review and automate direct debit process for rental income, liaise with ICT to improve current system connectivity, and to streamline income and expenditure processes.

55. This approach will ultimately allow the service to become more responsive to changes overtime, particularly with the introduction of universal credit and the continued financial pressure the HRA must operate under.

56. It is too early to quantify the level of savings that will arise from these changes as teams, processes and systems 'bed-in'. As such, potential savings will be reported to the committee through the regular budget monitoring reports during the year and included in any revision to the MTFP in 2017/18.

HRA Capital Programme 2016/17 to 2020/21

57. As reported in the MTFP to Council in January 2016, the reduction in the level of resources available to the HRA has prompted a refocusing towards the key priorities over the medium term.

New Homes and Regeneration Programme

58. Despite the challenging financial environment, the Council remains committed to addressing the ongoing housing shortage in the district. 2017/18 is the last year of the Council's five-year New Homes and Regeneration Programme and the budget for the remainder of 2016/17 and 2017/18 is to enable the Council to complete the delivery of its planned programme of 236 new homes. For context the schemes and the number of units they will produce is detailed below:

Scheme	**No of Units**	**Status**
Hanover scheme	18	Completed
Ex warden conversions already completed	9	Completed
Minchinhampton	35	Completed
Littlecombe	22	Completed
Mankley Road Leonard Stanley	51	Completed
Top of Town Phase 1 and 2	35	Completed
Fishers Road, Berkeley	4	Completed
The Corriett, Cam	6	Completed
Top of Town Phase 3 and 4	18	On site
Hillside, Far Green, Coaley	4	On site
Southbank, Woodchester	5	On site
Chapel Street, Cam	14	On site
Top of Town Phase 5	6	Design stage
The Ship Inn	9	Design stage
	236	

59. The budget in 2017/18 is to complete Top of Town phase 3 and 4, Southbank, Woodchester and Chapel Street, Cam and to commence and complete the development of the new homes at The Ship Inn and Top of Town phase 5.

60. At Top of Town the final phase to achieve 6 further new homes may not be possible due to the fact that the Council has not been able to persuade owner occupiers to sell or swop their properties to enable a more comprehensive demolition and replacement option to be carried out. The budget for this phase will need to be considered to see how the two remaining woolaways in this area can be refurbished, instead

of demolished and replaced, whilst still looking to achieve our target of 236 new homes.

61. The scheme to develop 5 homes at Southbank Woodchester is in contract but has experienced delays due to drainage issues for the site and this may delay completion beyond next year.

62. The development of The Ship Inn site is reliant on income from the sale of Wharfdale Way, which is shown as income in the MTFP.

63. The budget also assumes the sale of shared ownership properties at the Top of Town phase 2, which are all reserved, Chapel Street, Cam, which will be marketed early in the New Year and properties at The Ship Inn site, which will be advertised later in the New Year as the scheme progresses.

64. The figures are based on budget estimates for the build costs and so figures may need to be revised once tenders are received. A contingency of 2% of build costs has been included to allow for some price inflation and for unforeseen items.

Sheltered Housing Modernisation Project

65. Budgets have been included in the MTFP for the Sheltered Modernisation Project. In 2017/18 the budget is to allow for the conversion of the remaining ex wardens' properties and to commence the modernisation works to Sherbourne House for which procurement exercises are underway to ensure works can commence towards the end of 2017/18.

66. Budget is also included to start the development of the new flats on the Tanners Piece site, which is progressing with a view to returning to committee in 2017 and starting work on site next autumn. This is reliant on the sale of Dryleaze, which is shown as other capital receipts in the MTFP.

67. The overall five year budget allows for the works to complete Tanners Piece and the remodelling work and modernisation work to the green and amber schemes planned over the next five years.

68. The budget does not currently allow for the costs associated with the development work to the remaining red schemes which will be funded by sales of the other red schemes, i.e. Ringfield and Cambridge House, as approved by Housing Committee in June 2016 as a self financing project.

Table 2 – Sheltered Housing summary

	2016/17 (£'000)	2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)
Expenditure					
Revenue costs	426	327	330	330	280
Red schemes - capital	176	750	350	0	0
Other schemes - capital	0	616	341	784	463
	602	**1,693**	**1,021**	**1,114**	**743**
Financed by					
Earmarked Reserve	(602)	(1,693)	(671)	(1,114)	(743)
Capital receipts	0	0	(350)	0	0
	(602)	**(1,693)**	**(1,021)**	**(1,114)**	**(743)**

Note: Revenue costs shown in this table will differ from the line 'Sheltered Housing Modernisation Project' on the MTFP (Appendix B). This table only shows the revenue costs that are being funded through the resources allocated to the project. The MTFP includes costs associated with the estimated reduction in sheltered housing service charges due to demolitions.

Capital Works

69. Stroud has embraced the principles of effective asset management, and recognises the importance associated with maintaining effective attribute and stock condition information, the assessment of sustainability and future options for poorly performing stock, the relationship between maintenance and management functions, and the effective delivery of works programmes required to keep the stock in good condition.

70. 2016/17 has shown a reduction in the number of major voids being undertaken. This is as a result of previous year's investments across all work programmes. Due consideration has been taken into account when planning future years investment needs.

71. Following adoption of the Non Traditional Homes Strategy and Obsolescence Procedure Guide at Housing Committee on the 20 December 2016, an action plan will be developed over the coming months to look at the strategic and operational delivery of the project. Regular updates on progress will be provided to Housing Committee.

72. Continued reinvestment is required to keep the stock in good condition, this has been recognised in the stock condition survey completed in April 2016. Following the successful recruitment of a stock condition surveyor in December 2016, a rolling programme of stock condition surveys will be put in place to begin April 2017. It is anticipated that around 20% of the stock will be subject to a full survey every year so that each property is surveyed at least once every 5 years.

73. Stroud is aware of the diverse needs of its communities, local regeneration issues and the need to ensure a joined up approach. Since 2012 the primary driver for programmes has been the Decent Homes Standard. The next phase of investment and overall objective is

to empower and enable innovation and the delivery of continuously improving customer focused services. Planned and Cyclical maintenance programmes have been realigned where possible to maximise efficiencies and achieve greater value for money.