	Policy Finance and Development	**3 February 2015**	**Matter for Decision**

Title **Draft Housing Revenue Account Budget and Housing Capital Programme 2014/15 including Three Year Forward Financial Forecast to 2017/18**

Author **John Dickson – Chief Financial Officer and 151 Officer**
Anita Pathak-Mould - Head of Community

Introduction

This report provides information on the Draft budget for 2015/16 and forward financial forecast for the Housing Revenue Account (HRA) and the HRA Capital Programme to 2017/18 to enable the Committee to review expenditure and income, to seek explanations regarding any changes in budget levels and to comment on the allocation of financial resources.

On 1 April 2012 the HRA Self Financing Regime was implemented, replacing the HRA Subsidy System which was used to manage Local Authorities social housing finance for several decades. The change involved the Council making the payment of a one off debt settlement of £18.114m. The council is now solely responsible for managing its housing stock and is no longer dependent on annual decisions by Government about the level of resources that would be available in the following year. The 2015/16 is the fourth year of the new finance regime.

Recommendations

That Members:

1) Consider the Revenue budget forecast for the Housing Revenue Account in 2014/15 and the three forward financial years to 2018/19 and recommend to Council for Approval (Appendix 2)

2) Recommend to Council for approval the proposed rent and service charge increases for 2015/16 as recommended by Service Delivery Committee (Appendix 2 and Appendix 4 Section 2)

3) Consider the HRA capital programme for 2015/16 and recommend to Council for Approval (Appendix 3)

Information

The introduction of Housing Revenue Account self financing has given local authorities the freedom to develop and deliver a more positive, less constrained vision for Council Housing.

Housing Revenue Account (HRA) self-financing commenced in April 2012. For the first time in generations, local housing authorities are able to fully retain the money they receive in rent in order to plan and provide services to their current and future tenants. This represents a monumental shift in outlook from the previous financial system, replacing an annual short-term focus with a longer term planning horizon with the freedom to develop and deliver a more positive, less constrained, vision for council housing.

Major considerations for the Budget and Forecast period

The draft revenue and capital budgets for 2015/16 are attached for consideration by this committee at Appendices 2 and 3, which incorporates a three year forward financial forecast to 31 March 2018.

Government Housing Funding Policy

The budget reflects the implementation of HRA Self Financing from 1 April 2012. Under these arrangements the Council no longer has to make annual subsidy payments to the Government. These were estimated in 2011/12 to be as much as £1.5 million for 2013/14. Instead the Council paid a one off debt settlement of £18.114 m on 28 March 2012. This debt settlement represented the discounted value of the housing business over a 30 year period based upon assumptions made by the government about the income and costs of running the housing stock. The total amount of debt that can be supported from the HRA from April 2012 has been limited to £21.769 million – the so called ‘debt cap.

The ring fence arrangement that separates the HRA from the General Fund continues to operate under the new self financing regime.

Rent Policy

Since 2001, rents for social housing have been set based on a formula set by Government. Rents were increased each year by RPI + 0.5% plus an additional £2 where rents were below the Government set formula. It was originally planned that target rents would be reached by 2011/12 however due to Government attempts to keep rents affordable this was put back to 2015/16 by limiting some annual rent increases.

The Government announced a proposed revision to the policy for social rents during the spending round in June 2013. The headline change was for social rents to increase by CPI + 1% for the 2015/16 rent year and for the subsequent 10 years.

The Department of Communities and Local Government has subsequently consulted with the housing sector setting out that in addition to the change in the headline rate of rent increase, they (Government) are not minded to allow further rent convergence after the 2014/15 rent increase. However formula rents will continue to be calculated in order to measure the effect on the business plan of the new rent policy and its effects on the viability of the plan.

The move from RPI + 0.5% to CPI + 1% is unlikely to have a major impact on the business plan. In September 2014 CPI +1% equalled and increase of 2.26% for the year compared to RPI +0.5% which equalled 2.8% Previous assumptions built into the plan are for costs to increase by RPI (2.5%) and rent to increase by RPI + 0.5% (3%). Under the new regime, rents will increase by CPI + 1%. Therefore, if the council keeps costs to CPI + 0.5% there is no underlying change. This appears to be a reasonable aspiration.

In 2014/15, rents were on average £2.97 per property below convergence. The average rent in 2014/15 was £76.91 compared with a formula rent of £79.88. However a number of properties did reach convergence in 2014/15. The 2014/15 business plan was based on all rents eventually reaching convergence, something which will now not take place as the governments current rent policy continues to be applied in future years.

The proposed rent increase for 2015/16 moves the average rent to £78.65 against a formula rent of £81.67. The business plan assumption in future years is that this gap of, on average £3.02 per week will not be made up over the lifetime of the plan and hence reduce investment capacity by over £200k per year from the time of convergence.

This assumes that there is no re-letting of properties to target rent after 2015/16 with all rents increasing by 3% per annum. However, if we include some re-letting activity to what would have been formula rent this will increase the rental income.

Overall, this does not impact on the viability of the plan with the capital needs of the current stock fully met. Refinancing of the current loan structure may be needed to continue further long term investment.

One area where Government policy thinking remains unclear is around the housing benefit limit rent control mechanism. The housing benefit limit rent will also continue to act as a limiter on rent levels in 2015/16 – although as yet has not been set. However, it is unclear at present how the introduction of the Universal Credit and the benefit cap will impact upon the limit rent.

For tenants of Oadby and Wigston the 2015/16 rent proposals translate to an average rent increase of 2.26% with actual rent increases being in the range of £1.29 to £2.17 per week.

Welfare Reform and the Universal Credit

The Welfare Reform Act provided for the introduction of a Universal Credit to replace a range of existing means tested benefits and tax credits for people of working age (including housing benefit) which started from 2013. These include for the administration of this Universal Credit direct payment of housing support to the tenant instead of the current arrangement of directly paying the landlord. The Universal Credit was introduced on a pilot basis from October 2013. From October 2013 a benefit cap operated which meant that no household received more than £500 per week in total benefits.

Six pilots for the Universal Credit were completed and reports suggest that arrears levels in these pilots are running at between 10% and 20%. It is a concern therefore that payment of housing benefit directly to tenants (rather than to their landlords) has increased rent arrears and resulted in additional transaction cost. Moreover the capping of the Universal Credit at £500 per household per week has meant that some tenants fall into arrears as a consequence. It was estimated that the combination of these factors could increase arrears as a proportion of the total rent roll from 3% to 7% nationally. Also transitional payments have masked the impact of the bedroom tax and therefore it is possible there may be a further impact when this is no longer available.

The risk arising from the combination of the introduction of the benefits cap and the Universal Credit mean it is considered prudent to reflect in the forward forecast and increased bad debt provision and collection costs to pre-empt any adverse impact from the introduction of these changes. However, these need to be kept under review.

Right to Buy

The self-financing settlement included an assumption on the level of right to buy and the settlement value was adjusted to reflect this. The subsequent ‘reinvigoration’ of right to buy through increasing the discount available has the potential to impact on the cash-flows of the HRA and hence the value of the business.

Therefore, when the revised discount rates were introduced, a new set of arrangements was also introduced relating to what the capital receipt from disposals under right to buy could be used for. This allowed for the authority to keep a larger proportion of the receipts should sales increase to compensate for the loss of capacity from the business plan. In addition should receipts go above a certain level, the authority is allowed to keep that proportion of the receipt to fund additional affordable housing.

2013/14 saw an uplift in Right to Buy sales where 9 were sold. In 2014/15 as at the end of December a further 6 properties have been sold. This will generate additional receipts for investment in new affordable properties. The Council is currently in receipt of £52,000 of receipts which they will be required to spend on new housing by September 2017. Under the ‘1-4-1’ replacement housing agreement between the Council and the Government these receipts can only fund up to 30% of the cost of this housing. Therefore, a total of £120,000 will need to be found either from the Council's own funds or through an outside partner. A working party has been set up to look at the various opportunities the Council has for housing investment. Progress is continuing with the Compulsory Purchase Order at 41 Canal Street with North Midland Construction PLC with an update discussed by the Place Shaping Group. A verbal update on the land at Bennett Way will be given at this meeting

In 2014, the Government introduced further headline changes with the percentage discount available on the sales of houses to increase to 70% of the valuation in line with the discount available for flatted accommodation. This only impacts on those tenants who have between 25 years (the old maximum) and 35 years qualifying tenancy for discount purposes. The cash ceiling for the discount has increased from £75,000 to £77,000 from April 2014. This change will inevitably encourage sales of councils houses to remain at the current level at least in the short term.

Treasury Management Strategy

The implementation of HRA self-financing has been a major influencing factor on the Council's Treasury Management arrangements since 2012/13. As discussed above the self-financing settlement involved the Council taking on £18.114m of borrowing. For 2015/16, in the interests of corporate efficiency, the Council is moving to a combined loans pool for both HRA and General Fund. The interest costs on this borrowing consume a significant amount of the HRA's resources and the management of these is thereafter critical to the HRA budget. An updated Treasury Management strategy will be presented to Council in April 2015.

Decent Homes

The Council is undergoing a programme of works to bring all its housing up to the Decent Homes Standard. The challenge once this programme has been completed will be to maintain the stock at the Decent Homes Standard and meet other demands and commitments. A 30 year Asset Management Strategy was prepared in 2011-2012 and this was a key input into the 30 year financial strategy. Modelling the resources available in the 30 year HRA Business Plan under the new self financing regime demonstrates that with an improved financial position as a result of self financing, meets the overall demands of the Asset Management Plan and accommodates the peak of expenditure in the early years of the 30 year planning period.

Currently the Council has achieved the Decent Homes Standard in 92% of its properties. Work is continuing to increase the stock condition survey to 100% and so far this is validating that the Decent Homes Standard is being met and that any remaining shortfall can be met. It will also provide a more accurate (every property surveyed) basis upon which to model the 30 Year Investment

Plan. In overall terms it is not expected this will significantly alter the demand of the overall plan as sample surveys usually prove reasonably accurate for modelling purposes.

The Draft Capital Programme is set out in Appendix 3

The issues outlined above are developed in more detail in Appendix 4 which also includes detail on some other significant matters. Appendix 2 contains the revised estimates 2014/15 and the Budget for 2015/16 and sets out the estimated revised reserves position at 31 March 2015.

Consultation

In addition to being presented to the Committee the Draft Budget will be considered by the Tenant Panel. Any comments will be included in the report to Council on 19 February 2015.

Long Term Planning

The Council Medium-Term Financial Strategy (MTFS) and Asset Management Strategy are currently being reviewed. The MTFS will be presented to Policy Finance and Development Committee on 24 March 2014 with the Asset Management Strategy following later in the year.

The 30 year HRA Business Plan has been reviewed by the appointed external consultant and assumptions updated. Details of this review are included in Appendix 5.

Sustainability of the HRA

The HRA faces a number of financial challenges in the next few years. The most significant of which are:

1 The introduction of the Universal Credit with its proposals for payment of housing benefit directly to tenant instead of to the landlord and a cap on benefits of £500 per household per week.

2 The new Right to Buy (RTB) regime gives significant additional discounts of up to £77,000 available to buy Council properties. This has caused a significant increase in applications. Over a period of time will result in Council Stock being further depleted.

In addition there are significant local operational risks that need to be managed and are set out in the risk management table in Appendix 1.

It is essential that the HRA maintains sufficient reserves to manage these risks and it is proposed that in the draft budget and forward forecast that reserves are maintained at a minimum level of £0.3 m.

Future Build

In 2012/13 the Council established a Regeneration Reserve £500,000 has initially been transferred into this reserve to provide funding for new house building initiatives.

Proposals are actively being pursued with developers and stakeholders on some immediate opportunities on council land by our economic regeneration team which will initially be reported to the Place Shaping Working Group.

An action plan for progressing the housing initiatives as resolved by Council on 9 December 2014 will be presented to the Policy, Finance and Development Committee at its meeting on 24 March 2015.

Any funds generated by the plan, over and above what is required for the maintenance of the current base and service levels, will be added to this reserve.

Included in 2015/16 capital programme is an amount of £300,000 to allow potential new housing opportunities to be pursued. This follows a report to full Council on 9 December 2014, 'Development Opportunities in the Borough' outlining the Council's desire to increase affordable housing in the Oadby and Wigston area.

Implications	
Financial (PL & JD)	Contained in the Report
Risk (PL & JD)	Contained in Appendix 1 to this report
Equalities (KG)	No direct implications
Legal (KG)	No Direct implications

Background papers: None

Glossary of Abbreviations used in the report

HRA	Housing Revenue Account
RTB	Right to Buy
HRACFR	Housing Revenue Account Capital Financing Requirement
MRA	Major Repairs Allowance
MRR	Major Repairs Reserve
DCLG	Department of Communities and Local Government
RPI	Retail Price Index
CPI	Consumer Price Index