Manchester City Council
Report for Resolution

Report to: Executive – 17 February 2016
Finance Scrutiny Committee – 25 February 2016

Subject: Housing Revenue Account 2016/17 to 2018/19

Report of: Strategic Director of Strategic Development and City Treasurer

Purpose of the Report:

This report presents members with details on the proposed budget for the Housing Revenue Account (HRA) for 2016/17 and indicative budgets for 2017/18 and 2018/19. It seeks approval for the 2016/17 HRA budget and the proposed average rent reduction of 1% to all properties except for supported housing properties and Private Finance Initiative (PFI) funded properties, where the rent will be increased by 0.9%.

The proposed rent reductions are in line with initial Government guidance as laid out in the Housing and Planning Bill, whilst subsequent information released by the Department for Communities and Local Government (DCLG) has advised that both the supported housing properties and PFI funded properties will be excepted from the requirement to reduce rents, and it is proposed that the rents for these properties are increased by 0.9% in line with the original rent policy. It should be noted that the guidance will not be confirmed until after Royal Assent.

It is also proposed that the City Council continue with the policy of where rent is still not at the formula rent level, then the rent be revised to the formula rent level when the property is re-let.

Recommendations:

Scrutiny Committees are invited to review and comment on the HRA Budget.
The Executive is recommended to:

a) note the forecast outturn in 2015/16 as detailed in section 4 and Appendix 1.

b) approve the 2016/17 HRA budget as presented in Appendix 1 and note the indicative budgets for 2017/18 and 2018/19.

c) approve the proposed 1% decrease to dwelling rents (subject to the exceptions outlined above), and delegation of the setting of individual property rents, to the Director of Housing and the City Treasurer, in consultation with the Executive Member for Housing and Regeneration and the Executive Member for Finance and Human Resources.

d) approve the proposal that where the 2016/17 rent is still not at the formula rent level, the rent is revised to the formula rent level when the property is re-let.

e) approve the proposals for communal heating charges in 2016/17 as detailed in paragraph 6.12.

f) approve an increase in the management fee paid to Northwards as detailed in paragraphs 6.23 to 6.28.

g) approve the proposed increase in garage rental charges as outlined in paragraph 7.1

Wards Affected: Charlestown, Cheetham, Crumpsall, Harphurhey, Higher Blackley, Moston, parts of Ancoats and Clayton, Ardwick, Bradford and Miles Platting and Newton Heath

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	A healthy and fit for purpose housing market is essential for the economic growth of the City. People living in energy efficient housing in good repair are more likely to stay in good health and so be able to obtain employment and to stay in employment. Setting rents at an appropriate, affordable level will assist in this.
Reaching full potential in education and employment	Appropriate housing is vital to ensuring that residents achieve their full potential. Children living in energy efficient housing in good repair and of adequate size are more likely to stay in good health and have suitable conditions and space for studying. Setting rents at an appropriate, affordable level will enable tenants to live in locations which meet their aspirations in terms of education and employment.
Individual and collective self esteem – mutual respect	Quality housing is intrinsically linked to residents' health, well being and feeling about their community. Setting rents at an appropriate, affordable level will assist in this.
Neighbourhoods of Choice	Improving the quality and management of the housing offer is fundamental to creating neighbourhoods where people choose to live. Setting rents at an appropriate, affordable level will enable tenants to live in locations which meet their aspirations in terms of preferred neighbourhood.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The HRA is a ring-fenced budget and the proposals in this report will not impact on the General Fund of the City Council.

The HRA ring fence states that the HRA income, which is predominantly made up from rental income, PFI Credits and heating charges must be used for the purpose of funding the costs of managing and maintaining the HRA assets. The HRA financial plan covers a rolling period of 30 years.

Following the Government's summer budget announcement, the 2016/17 rental income is reduced by 1%, this is a recurring reduction and will be subject to further 1% reductions in the following three years (2017/18 – 2019/20). Subsequent further Government guidance has indicated that properties where supported housing is provided have been exempted from the requirement to reduce rents for 2016/17, this is whilst a review of supported housing is undertaken. The Council has also now been advised that the rent reduction will not apply to properties managed as part of a PFI management contract, although the guidance for this is still awaited.

In order to maintain the HRA overall position in the short term whilst options are considered for the future, it is necessary to identify savings to mitigate the reduced rental income. This report sets out the proposed savings for 2016/17, with indicative savings from 2017/18; however, it will be necessary to review the budget for future years and identify further savings to offset the impact of the rent reductions and other changes to the long term financial plan, and ensure that the HRA does not go into deficit.

It is proposed that the Northwards management fee be increased by £732k in 2016/17 to enable Northwards to meet increased cost pressures and continue to maintain the existing standard of service.

To partially offset the budget pressures, the bad debt provision has been reduced from 3% to 2%, this is based on current year's performance and will be retained under review. The 1% reduction saves £0.7m in 2016/17.

The remaining savings required will be achieved by reducing the Revenue Contribution to Capital (RCCO) which had been proposed for 2016/17 by £1.2m along with other adjustments of c£0.9m (£0.3m depreciation and £0.6m net reductions in other budgets compared to the original plan).

Financial Consequences – Capital

Within the proposed HRA budget the charge for depreciation is subsequently credited to the Major Repairs Reserve and this can be used to either fund capital expenditure or pay down any housing debt. In 2016/17 this has continued to be determined in line with the uplifted major repairs allowance (MRA), which is in accordance with guidance from DCLG. This results in a charge of £13.037m to the HRA in 2016/17 (£13.298m in 2017/18 and £13.651m in 2018/19) which will be transferred to the MRA and made available for Capital investment. As part of the initial move to self financing, a five year transitional period was introduced, and during this period the depreciation charge calculations remained unchanged. The transition period ends in March 2017, and a new basis for calculation will be introduced. The Council is currently awaiting further guidance from Chartered Institute of Public Finance and Accountancy (CIPFA) on this, but the likely impact is unknown at this stage.

Due to the previously forecast surplus on the HRA, approval was given to set aside:

- an investment fund of £40m to be used to fund capital work from 2013/14 through to 2017/18.
- a capital contribution to the Brunswick PFI totaling £24m between 2014/15 and 2019/20.

A further capital contribution of £5m has been proposed for 2016/17 and this will increase by the consumer price index (CPI) each year thereafter. This will help to maintain properties to the Decent Homes Plus Standard.

In order to offset, in part, the rent reductions imposed by Government and the proposed increase to the Northwards management fee, it is proposed that the planned revenue contribution to capital is reduced by £1.2m from 2016/17. This follows a review of the resource requirements for the overall HRA capital programme. The capital programme and associated funding will be subject to annual review.

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Background documents (available for public inspection):

Executive, 13 February 2015 – Housing Revenue Account Budget 2015/16 – 2018/19.

1. Introduction

1.1. The purpose of this report is to approve the Housing Revenue Account (HRA) 2016/17 budget and provide members with recommendations for approval in respect of the 2016/17 tenants' rent, garage rents and communal heating charges.

1.2. As part of the Government's summer budget, there were a number of announcements that affected the HRA budget, both in the short term and in future years. This report sets out details of those changes, along with the implications to the budget, where known, and the proposed options for mitigating the impact in 2016/17, with a direction of travel for future years, however, further savings are required beyond 2016/17 to ensure a balanced HRA budget and work is ongoing to identify these.

1.3. This report sets out the HRA budgetary proposals for 2016/17, and the indicative position for 2017/18 and 2018/19. Furthermore it highlights the current use of reserves, along with the risks that need to be managed.

2. Background

2.1. Since the introduction of Self Financing in April 2012 the Council has had to manage its housing stock on a similar basis to Registered Providers. This has entailed developing a rolling 30 year business plan, and reviewing the use of existing assets to ensure that benefits are maximised.

2.2. In developing the 30 year business plan it is essential that the Council considers all risks, and ensures that any investment decisions are affordable both in the short and longer term. The overriding factor is the rental income, and ensuring that any changes to the available rental income do not impact upon the sustainability of the HRA.

3. Statutory Duties in Determining the HRA Budget Strategy

3.1. The rules governing the maintenance of the HRA were established pursuant to the Local Government and Housing Act 1989 and provide that:

- The Council must formulate proposals in respect of HRA income and expenditure for the financial year which, on the best assumptions and estimates that the Council is able to make at the time, ensure that the HRA does not show a debit balance;
- The Council is required to keep a Housing Revenue Account in accordance with proper practice. The Council has the responsibility to determine a strategy that is designed to ensure that the HRA is in balance taking one year with another.
- The HRA continues to be a ring-fenced account, this means that it must, in general, balance on a year-to-year basis, so that the costs of running the Housing Service, which include debt charges, administration costs and maintenance expenditure must be met from HRA income.

4. Budget 2015/16

4.1. The latest forecast as at December 2015 (Period 9) shows that the HRA will have an in year deficit of £1.250m. This is £1.1m less than originally budgeted, and the main reasons for this change are as follows:

- additional expenditure at Miles Platting PFI, with £1.8m for the purchase of land.
- A reduction in the forecast level of revenue required to contribute to capital expenditure (RCCO) by £1.7m. This is in relation to the approved £40m investment fund where RCCO to fund these works for 2015/16 was estimated as £9.147m and the latest forecast suggests that only £7.482m will be required. The funding has been re-profiled in the HRA financial plan in line with latest forecasts.
- The current collection rates suggest that a £600k reduction in the level of bad debt provision will be required against the budget.
- Reduced expenditure of £200k on supervision and management, including PFI legal and finance costs.
- A reduction in depreciation of £200k due to inflation being lower than anticipated.
- other reductions totalling £200k.

5. Implications of the Summer Budget 2015

5.1. As part of the Chancellor's budget statement on 8 July 2015, there were a number of announcements with regard to social housing and particularly rents that had implications for the Housing Revenue Account (HRA).

5.2. The main changes for Social Housing that were proposed as part of the budget announcement were:-

- Social housing rents would be reduced by 1% per annum for the next four years. Note the subsequent exceptions referred to earlier in this report.
- a *pay to stay* proposal, which will apply to social housing tenants with household incomes of £40,000 and above in London, and £30,000 and above in the rest of England. Those affected by this will have to pay a market or near market rent for their accommodation. Local authorities will be required to repay the additional rent that they receive from tenants to the Government.
- The Government will review the use of lifetime tenancies in social housing with the aim to ensure the best use of the country's social housing stock and that households are offered tenancies that match their needs.

5.3. Previously, as part of the 2013 Spending Round, the Government had announced that "from 2015/16 social rents will rise by CPI plus 1 per cent each year for 10 years". As part of the 2015/16 budget setting process, the new rent policy was adopted, and the rent income reflected these assumptions.

In the Chancellors summer budget statement, it was announced that the CPI +1% rent policy would change and that social rents would in fact reduce by 1% per annum for the next four years (2016/17 -2019/20). This revised policy will commence from April 2016 in accordance with the Welfare Reform and Work Bill. It has since been announced that supported housing rents will be exempted from the reduction. It has recently been advised that it is likely that the original decision to impose the rent reduction will not apply to properties managed as part of a PFI management contract. This report seeks:

- To increase rents relating to supported housing and properties managed under PFI arrangements by 0.9% in line with Government advice
- To reduce rents for all other dwelling houses by 1%

The budget has been prepared on this basis.

5.4. The reduction in rental income has significant implication on Manchester's HRA. In the four year period 2016/17 to 2020/21 the overall rent reduction is forecast to be £20m, this is calculated by comparing the original anticipated increase of CPI + 1% with the required 1% reduction. Over the life of the business plan there is a loss of around £277m to 2044/45. This is compared with the original approved 2015/16 budget, however, since this point property numbers will have changed due to demolitions, right to buy purchases etc.

5.5. Due to the loss of income referred to above, and without any mitigating action, the current forecast reserves will mean that the HRA is no longer viable in the medium/longer term. It is forecast that the overall financial impact of both the reduced rent and interest change amounts to around £280m over the life of the 30 year financial plan. Clearly this is not sustainable and unless actions are taken to mitigate the impact of the reduced income the current HRA Business Plan will become unaffordable within this timeline.

5.6. As part of the 2016/17 budget proposals there are a number of saving and other adjustments to offset the 2016/17 loss of rental income (£2.1m against the original plan) and the additional management fee proposed for Northwards (£0.7m, which includes confirmation of the continuation of £0.4m from 2015/16) and help to ensure that the proposed budget in 2016/17 is balanced. However, further work will be required in future years to identify further reductions in expenditure to avoid the HRA exhausting its reserves and slipping into a deficit position. The savings and other adjustments proposed for 2016/17 against the original plan are:

- To reduce the proposed revenue contribution to capital (RCCO) by £1.2m following a review of the programme requirements. RCCO funding for the capital programme will be subject to annual review.
- To reduce the bad debt provision from 3% to 2% for 2016/17; this would save £0.7m against the original plan for 2016/17.
- Reduction in depreciation charge to the HRA of £0.3m
- Other net adjustments of £0.6m.

5.7 As part of the 2017/18 budget planning, the current years proposed savings will be retained and will be reviewed along with all the other expenditure headings in order to identify furthers savings. This will include a review of the future management of arrangements for the HRA stock which is to be undertaken during 2016/17.

6. Budget Strategy 2016/17 - 2018/19

6.1. The HRA financial plan has been prepared taking into account all known changes to housing stock numbers, ongoing management arrangements, proposed investment needs and also assumptions in line with the City Council medium term financial plan around pay and inflationary increases. It also takes account of assumptions on the impact of Welfare Reform which initially commenced in April 2013, but is continuing to be rolled out over the next few years. To date the anticipated reduction in income has not materialised but the position will continue to be monitored closely, and an increased bad debt provision has been retained in the budget for future years.

6.2. The HRA budget shows statutory compliance in that a surplus is forecast (before the use of reserves to fund capital works) at the end of each year within the three year budget strategy period. However, the Government's decision to impose a 1% rent reduction over the next four years has meant that this is not sustained over the life of the 30 year business plan and so action will be required in order to identify what efficiencies can be made to ensure that reserves are kept at a sufficient level to enable risk to be managed and resources to be available to fund future works required.

6.3. The table at Appendix 1 provides a detailed analysis of the overall proposed budget which is forecasting a surplus of £7.0m in 2016/17 (before the use of reserves for capital works).

6.4. The key budget assumptions used in preparing the HRA budget are as follows:

Rent Income

6.5. As referred to at paragraph 5.2, as part of the Government's summer budget it was announced that social rents would reduce by 1% p.a. for four years commencing 2016/17. Currently it is assumed that the rent policy will revert back to the original assumptions following the four year period of reductions, although this will need to be kept under review. Following information recently received from Government, the reduction does not apply to sheltered housing or PFI properties. For those properties where formula rent has not been achieved (there will be approximately 1,000), the rent can still be amended when a property is re-let.

6.6. The current budget includes a rent reduction of 1% (with the exceptions previously mentioned) which will produce an average weekly rent (based on 52 weeks) of:

- General Needs £73.83
- Supported Housing £67.81
- PFI Managed £75.93

It should be noted however that the assumed rent in the business plan was previously based on CPI + 1% until 2024/25 inclusive, after which it returned to CPI. These assumptions will continue after the four years of rent reductions.

6.7. CPI is assumed to be 2% moving forwards, although the actual CPI for 2016/17 rents would have been -0.1% (based on the preceding September). This would have resulted in a reduced rental income of £1.2m from the figure in the original business plan, even if the Government had not imposed the 1% reduction. This highlights the risks around assumptions within the business plan that need to be retained under review, and managed within the HRA.

Other Income

6.8. Details of other Income as shown in appendix 1 is as follows:

- Non Dwelling Rents and Other Income includes:
  - Non Dwelling Rents – income from garage rents, office rents, ground rent and telecoms masts
  - Other Income and Contributions – girobank charges to Northwards, contributions from Growth & Neighbourhoods towards grounds maintenance at Miles Platting and solar panel income
- Recharge to Homelessness – rental income in relation to HRA properties used by Homelessness
- VAT Shelter Credits – income from other Registered Providers in relation to VAT recovery on Repairs and Maintenance costs following stock transfers
- HRA Investment Income – the HRA receives income on balances held within the Council's bank account.

PFI Allowances

6.9. As part of the PFI negotiations for the Brunswick scheme, the Council agreed to make a capital contribution totalling £24m between 2014/15 and 2019/20, and this results in savings of approximately £48m over the life of the PFI contract, through lower annual Unitary payments.

6.10. "Smoothing" reserve funds had been established for all the PFI contracts, to smooth the costs over the duration of the PFI scheme. Following the introduction of self financing and the removal of the subsidy system, PFI rental income and grant can be used to fund the annual unitary charge, which removed the ongoing requirement to contribute towards a smoothing reserve. The current PFI reserve will continue to remain frozen as at 31 March 2015 and will be used to part fund the outstanding HRA debt.

6.11. The three stock management PFI schemes will not run at a deficit for 2016/17, the income from rents and PFI credits is greater than the Unitary Charge payments. This budget proposes to continue to change PFI rents in line with the original rent policy.

Communal Heating

6.12. Aligned to the Heat Network (metering and billing) Regulations which come in to force during 2016/17, work is underway to review the current level of heating charges payable by tenants which may also result in changes to the current charging regime. Therefore it is recommended that heating charges remain unchanged in 2016/17 until this work is complete and the options for future charges have been considered by Members.

Depreciation

6.13. Prior to the introduction of self financing in 2012/13, the depreciation charge was only a notional charge and as such there was no financial impact upon the HRA. Under self financing the rules changed, and in order to reflect the reducing value of the HRA assets a depreciation charge should be made to the HRA, but because of the significant implications of this Local Authorities were given a five year transition period, whereby they could continue with existing practices. This was so that an affordable longer term solution to reflect the true costs of depreciation and impairment could be arrived at.

6.14. 2016/17 is the final year of the original five year transition period, and the future treatment of Depreciation and Impairment has still not been agreed, with guidance awaited from CIPFA. Impairment is incurred to reflect any downward value in relation to the HRA properties. Until the position is clear ideally it would be prudent to retain a healthy reserves position to mitigate any potential financial implications on the HRA as a result of changes to the current guidance.

Debt Financing and Borrowing Costs

6.15. The 2016/17 opening HRA debt is anticipated to be £121.26m, and due to the forecast level of reserves the debt will be funded through a combination of market loans and internal funding. This does provide the benefit of reducing the costs of borrowing, but it is important that any future investment decisions need to be carefully considered if it is proposed to use any of the reserves.

6.16. Due to the reduced rental income over the next four years and the reducing reserves, it is currently anticipated that in 2028/29 the HRA will not be in a position to continue funding the debt in the same way (this assumes no additional capital expenditure other than mentioned previously), and unless savings are identified to mitigate the rent reductions there will be further increased costs of borrowings.

6.17. The HRA is making provision only for the interest repayments in relation to the outstanding debt. Consideration will need to be given to refinancing the debts as and when they become repayable.

Cost Pressures

6.18. Cost pressures are in line with the Council's current assumptions in that pay is at 1% and pensions at 0.8% up until 2017/18. The majority of inflation in the business plan is linked to the CPI rate, which has used the Bank of England forecast for 2017/18 and 2% thereafter.

Provision for Bad Debts

6.19. For the 2015/16 business plan, the level of contribution towards the provision for bad debts was forecast to be 2.5%, increasing by 0.5% a year to a maximum of 5% in 2020/21, this is to reflect the anticipated impact of the introduction of direct payments as part of welfare reform. Therefore based on a combination of current year's bad debt requirements and further welfare reform changes it is proposed that the 2016/17 bad debt provision is set at 2%, rather than the original 3%, this will save c£0.7m in 2016/17 compared to the original budget assumptions.

6.20. Work will continue to assess the full implications of Welfare Reform as it is rolled out, and the bad debt provision requirements will be remain under review. The current business plan assumes that the provision will increase to 5%, but this is not now until 2022/23. Northwards have put additional resources in place and the City Council has also provided additional staff for them to work with tenants in managing their budgets and increasing the resources available to collect rents. The costs of this are provided for within the proposed budgets.

Management of Housing Stock and Implications of "Right to Buy"

6.21. The Council continues to own and manage over 16,000 properties within the HRA, under various arrangements. These include three PFI schemes, as well as stock managed by either Northwards Housing or other Registered Social Landlords (RSL's). During 2015/16, the City Council currently anticipate selling around 97 properties under the Right to Buy (RTB) scheme. This is less than in 2014/15, and this is due to an initial spike in sales following the introduction of improved discounts. It is assumed the RTB numbers will remain at a similar level for the duration of the Business Plan. This will reduce the level of rent income achieved and the numbers of right to buys will continue to be closely monitored.

6.22. In the Council's role as landlord there is an on going requirement to manage each of the Housing PFI contracts, the West Gorton management contract, the Alderley Edge management contract, the two Tenant Management Organisations and the Northwards management agreement, together with managing the HRA itself. The Council can reasonably recharge the HRA for the costs of these related services which are managed by the Director of

Housing. The Council will continue to regularly review its recharge to the HRA so as to ensure best value for money which is open to tenant scrutiny.

Northwards Management Fee

6.23. In 2012/13 the City Council negotiated a new long-term Management Agreement with Northwards and agreed a flat-rate fee for the first five years subject to any significant changes in their costs. It was also agreed that they should seek ongoing value for money efficiencies.

6.24. In order to provide Northwards with more certainty around the level of fee and to assist them with their business planning, it was further agreed last year that the fee should be based on property numbers as at 1st January 2015 for a three year period rather than adjusted annually to reflect the effect of Right to Buy and new build.

6.25. In addition to this a one-off £432k increase was agreed in order that they could maintain service levels whilst a full service review was undertaken. This was aimed at delivering a saving plan to enable Northwards to continue to maintain a high quality service within the agreed management fee formula going forward.

6.26. As part of the 2016/17 fee discussions, Northwards have advised that in order to maintain the existing level of service provision they will require a further increase of £300k (plus retain the £432k given as a one-off increase for 2015/16) to give a total fee of £21.474m. There is also a further payment of £365k for Intensive Housing Management and a Key Complex Worker support.

6.27. During 2015/16, Northwards have extensively reviewed their services and costs to identify where savings could be made. A number of savings options are now being taken forward which will reduce costs without adversely affecting front line services. However greater savings would have meant a reduction in front line services which, in the face of the significant reserves held in the HRA and the other options to balance the budget, were felt to be unnecessary. However it has been agreed that in light of the known Government changes and the anticipated changes, a more fundamental review of how the City Council delivers its housing management services and the options that are open to it needs to be undertaken by the Council within 12 months with a view to a recommendation being brought back to Members no later than first quarter 2017.

6.28. A breakdown of the draft Northwards 2016/17 budget is shown below. Note that these figures are only estimates at this stage and have not yet been considered and approved by the Northwards Board, this is scheduled for 14th March 2016.

	£000
Expenditure	
Operational Costs	
Employee Costs	11,206
Premises Costs	789
Transport Costs	225
Supplies & Services	1,544
Project Spend	93
Contracts – 3rd Parties	1,379
Service Level Agreements	1,340
Sub Total Operational Costs	**16,576**
Repairs & Maintenance	
General Responsive Maintenance	3,249
Voids Responsive Maintenance	2,726
Other Responsive Maintenance	341
Planned Maintenance	1,601
Environmental Repairs	924
Retirement Caretaking	40
Sub Total Repairs & Maintenance	**8,881**
Total Expenditure	**25,457**
Income	
City Council Management Fee	(21,474)
Supporting People Grant	(505)
Capitalised Salaries	(1,761)
Other Capital Recharges	(398)
Manchester Move Income	(267)
Other Staff Recharges	(268)
Service Charge Income	(216)
YES Income	(169)
Other Miscellaneous Income	(380)
Total Income	**(25,438)**
Net Deficit	19

6.29. A detailed Asset Management Plan has been developed for the properties in the HRA. In order to ensure that the City Council is able to maintain homes to the decent homes plus standard additional Capital resources of £5m per annum were set aside in the 2015/16 HRA budget report to take effect from 2016/17, this will be subject to annual review.

6.30. Other Expenditure

Details of other expenditure as shown in appendix 1 is as follows:

- Retained Stock Maintenance & Repairs – this covers repairs to offices, pruning of trees, and some lift maintenance
- Supervision & Management – this covers the City Council costs of managing the HRA, including the cost of staff in Strategic Housing

(HRA related), corporate, central and departmental recharges, and other miscellaneous costs.
- Other management arrangements – stock management fee to Guinness Partnership (171 properties in West Gorton) and Peaks and Plains (11 properties in Alderley Edge)
- Council Tax – due on properties held empty for demolition
- Insurance / Compensation - Compensation fees payable plus an annual contribution to the Insurance reserve, from which HRA claims are met
- Revenue Contribution to Capital Outlay – this is where funds held within the HRA are set aside to contribute towards the cost of capital works

These costs are currently under review as part of the ongoing budget strategy for the HRA.

7. Garage Rents

7.1. For 2015/16 it was agreed that garage rents should be brought in line with dwelling rents in respect of the increases that had been applied. To achieve this, it was agreed that garage rents were to be increased by 3.92% on top of the increase applied to dwelling rents for the five year period 2015 – 2020, of which 2016/17 will be year 2. Therefore, it is proposed that garage rents increase by 2.92% in 2016/17, as shown below:

	Annual Charge 2015/16	**Weekly Charge 2015/16**	**Proposed Weekly Charge 2016/17**	**Proposed Weekly Increase**
Site Only	£85.80	£1.65	£1.70	£0.05
Prefabricated	£190.32	£3.66	£3.77	£0.11
Brick Built	£223.60	£4.30	£4.43	£0.13

8. Reserves Forecast

8.1. Current projections now show that due to the enforced rent reduction over the next four years, the HRA will no longer generate annual surpluses over the duration of the business plan. Based on the current assumptions within the plan, the HRA continues to hold sufficient surpluses in its reserves to avoid paying an increased amount of interest for the next ten years, but after that it incurs significant additional costs and moves into an unsustainable position in under twenty years time.

8.2. There also continues to be an ongoing risk around how depreciation and impairment will be treated within the HRA and the Authority is still awaiting further information from CIPFA on future treatment.

8.3. The table below sets out details of the anticipated HRA reserves position, over the next three years if there are no additional investment proposals above the approved amount's included for RCCO and the contribution towards Brunswick capital costs. Given the low interest rates payable on balances, the HRA is currently using around £50m of its own reserves to internally fund part of the HRA debt rather than take out external borrowing. This provides annual interest savings of around £2.4m per annum. The continuation of this arrangement will need to be considered if any investment proposals are to be funded by the use of reserves.

Reserves Forecast 2015/16 to 2018/19

Reserve Description	Forecast 2015/16 £000's	2016/17 Budget £000's	2017/18 Budget £000's	2018/19 Budget £000's
General Reserve	50,809	42,730	26,364	25,440
Residual Liabilities Fund	24,000	24,000	24,000	24,000
PFI Reserve	10,000	10,000	10,000	10,000
Insurance Reserve	627	627	627	627
Major Repairs Reserve	1,909	1,445	1,091	156
Total Reserves	**87,345**	**78,802**	**62,082**	**60,223**

8.4. The significant reduction in general reserves in 2017/18 relates predominantly to the profiling of previously approved capital investment totalling £40m.

8.5. The Residual Liabilities Fund was established to cover any potential environmental and other risks associated with the large and small scale voluntary transfers that have taken place during the past 15 years. There is no reason to change the level of reserve from that recommended in an independent report previously commissioned, and therefore the fund balance will be held at £24m as at 31 March 2015.

9. Conclusions

9.1. The proposals contained in this report seek to ensure that the HRA business plan provides a sound basis of managing the existing stock, whilst also identifying the potential risks that need to be monitored on an ongoing basis.

9.2. The budget proposals will allow for continued service delivery and investment within the stock, within the confines of the available resources.

9.3. Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the HRA does not result in a debit balance. The proposed budget for 2016/17, together with the indicative budget for the following two years, is attached at Appendix 1 and shows this provision being met (before proposed use of reserves to fund capital works).

9.4. Despite the reduction in rental income, the HRA is still budgeting for an annual surplus. These surpluses will be used to fund additional capital works until 2018/19, and ongoing contributions toward the capital costs of the Brunswick PFI scheme until 2019/20, which will lead to savings over the life of the PFI contract.

9.5. Based on forecasts, over the next three years the HRA can continue to fund existing debts, together with the ongoing management and maintenance costs whilst also maintaining a positive reserves position. The reserves provide longer term benefits to the HRA through debt financing, reducing the overall interest payable, contributing towards increased resources available for further investment in the longer term. The longer term forecast position has been affected significantly by the reduction in rents, and will be further affected by the enforced sale of high value assets to fund the extension of Right to Buy to Housing Associations. Work will continue to review the effect of these and other changes on the business plan over the 30 year period.

9.6. There remain a number of unknowns in relation to the longer term position of the HRA as a result of decisions required from DCLG regarding the treatment of depreciation and impairment. Changes to this within the HRA may result in significant additional costs, however, the position is yet to be resolved with a five year transitional period ending in 2016/17, during which Authorities will retain the current financial arrangements.

10. Contributing to the Community Strategy

(a) Performance of the economy of the region and sub region

A healthy and fit for purpose housing market is essential for the economic growth of the City. People living in energy efficient housing in good repair are more likely to stay in good health and so be able to obtain employment and to stay in employment. Setting rents at an appropriate, affordable level will assist in this.

(b) Reaching full potential in education and employment

Appropriate housing is vital to ensuring that residents achieve their full potential. Children living in energy efficient housing in good repair and of adequate size are more likely to stay in good health and have suitable conditions and space for studying. Setting rents at an appropriate, affordable level will enable tenants to live in locations which meet their aspirations in terms of education and employment.

(c) Individual and collective self esteem – mutual respect

Quality housing is intrinsically linked to residents' health, well being and feeling about their community. Setting rents at an appropriate, affordable level will assist in this.

(d) Neighbourhoods of Choice

Improving the quality and management of the housing offer is fundamental to creating neighbourhoods where people choose to live. Setting rents at an appropriate, affordable level will enable tenants to live in locations which meet their aspirations in terms of preferred neighbourhood.

11. Key Polices and Considerations

(a) Equal Opportunities

The rents have been set in line with the Governments increased guideline rent, and the Housing Benefit system will provide support to the most needy within the constraints of the proposed welfare reform.

(b) Risk Management

Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the Housing Revenue Account does not result in a debit balance. The proposed change in rents and identification of savings within this report, together with regular budget monitoring will assist in managing this risk over the short term. Work will continue to ensure that the HRA remains viable in the longer term.

(c) Legal Considerations

The City Solicitor has reviewed this report and is satisfied that any legal considerations have been incorporated within the body of the report.

Appendix 1

Housing Revenue Account Budget 2015/16 – 2018/19

	2015/16 (Forecast)	2016/17	2017/18	2018/19	See Para.
	£000	£000	£000	£000	
Income					
Rental Income	(62,851)	(61,871)	(60,956)	(60,380)	6.5
Other Income	(675)	(652)	(666)	(679)	6.8
Communal Heating	(1,366)	(1,388)	(1,409)	(1,437)	6.12
Private Finance Initiative Allowance	(23,602)	(23,602)	(23,602)	(23,602)	6.9
Recharge to Homelessness	(173)	(173)	(176)	(181)	6.8
VAT Shelter credits	(457)	(366)	(374)	(210)	6.8
HRA Investment Income	(124)	(163)	(185)	(140)	6.8
Funding to/(from) General Reserve	(1,250)	(8,079)	(16,366)	(924)	8.1
Total Income	**(90,498)**	**(96,294)**	**(103,734)**	**(87,553)**	
Expenditure					
Payments to Northwards	21,652	21,839	20,964	21,091	6.23
Payments to Tenant Management Organisations	411	412	420	428	6.30
Retained stock maintenance and repairs	50	35	36	36	6.30
Communal Heating	1,546	1,643	1,668	1,701	6.12
Private Finance Initiative Contractor Payments	35,482	32,792	32,633	34,070	6.9
Supervision & Management - Internal	5,548	5,664	5,366	5,408	6.30
Other Management Arrangements	172	172	174	177	6.30
Council Tax	405	326	200	150	6.30
Contributions to Bad Debts	1,000	1,244	1,537	1,828	6.19
Insurance / Compensation	354	377	377	377	6.30
Depreciation	12,895	13,037	13,298	13,651	6.13
Revenue Contribution to Capital Outlay	7,482	15,274	23,615	5,354	6.30
Debt Management Expenses	12	12	12	13	6.15
Interest Payable	3,489	3,467	3,434	3,269	6.15
Total Expenditure	**90,498**	**96,294**	**103,734**	**87,553**	
General Reserve:					
Opening Balance	(52,059)	(50,809)	(42,730)	(26,364)	8.1
Funding (from)/to Revenue	1,250	8,079	16,366	924	
Closing Balance	**(50,809)**	**(42,730)**	**(26,364)**	**(25,440)**	