Report to	Cabinet	**Item**
	8 February 2017	7
Report of	Chief finance officer	
Subject	Housing Rents and Budgets 2017-18	

Purpose

To consider the Housing Revenue Account budget for 2017-18, council housing rents for 2017-18, the prudent minimum level of HRA reserves 2017-18, and housing capital programme 2017-18 to 2021-22.

Recommendation

1) To recommend to council, for the 2017-18 financial year, to:

   a) implement the minimum 1% rent reduction in accordance with legislation set down in the Welfare Reform and Work Act 2016. (para 5.8).

   b) approve the proposed Housing Revenue Account budgets (para 3.1).

   c) approve the prudent minimum level of housing reserves (para 6.6).

   d) approve the proposed housing capital programme 2017-18 to 2021-22 (para 8.1).

   e) approve that garage rents increase by 2% (para 5.12)

2) To note that service charges will be determined under delegated powers in compliance with the constitution (para 5.13).

Corporate and service priorities

The report helps to meet the corporate priorities “Decent housing for all” and “Value For Money services”.

Financial implications

These are set out in the body of the report

Ward/s: All wards

Cabinet members: Councillor Harris **-** Deputy leader and council housing
Councillor Stonard – Resources and business liaison

Contact officers:	Justine Hartley, Chief finance officer	01603 212440
	Shaun Flaxman, Group accountant	01603 212805

Background documents

None

Report

1. Contents of report

1.1 The contents of this report are set out as follows:

2. Budgetary context
3. Summary HRA Budget 2016/17 into 2017-18
4. Background to financial Planning for the HRA
5. Council Housing Rents
6. Report by the Chief Financial Officer on the robustness of estimates, reserves and balances
7. Housing Capital Resources 2016/17-2020/21
8. Recommended Housing Capital Programme 2016/17 to 2020/21

Appendix 1 Budget movements by type

Appendix 2 Calculation of Prudent Minimum Balance

2. Budgetary context

2.1 The Housing Revenue Account (HRA) is a ring fenced account that the authority must maintain in relation to its council housing stock. The HRA must fund all expenditure associated with the management and maintenance of the housing stock. The HRA is a complex account, the format of which is prescribed by government.

2.2 The HRA moved from a position of being heavily influenced by central government, through the Housing Subsidy system, to a position under Self-Financing where the council had considerably greater discretion over the use of HRA resources. Rent and other income under Self-Financing, remain within the council's HRA rather than being subsumed into a national pool. However, the level of government influence on the HRA increased again in 2015 with the introduction of a mandatory reduction in social rent levels, and with the introduction of measures included within the Housing and Planning Act 2016.

2.3 The proposed budgets have been drawn up within the framework of the Corporate Plan, corporate Medium Term Financial Strategy (MTFS), the Neighbourhood & Strategic Housing Services' Service Plans, the HRA Business Plan, the Housing Asset Management Plan, and the Housing Investment Strategy.

3. HRA Budget 2016/17 into 2017-18

3.1 The following table shows the proposed budget in summarised statutory form assuming a rent reduction in line with provisions in the Welfare Reform and Work Act 2016 (see para 5.8).

Statutory Division of Service	Original Budget 2016/17 £000s	Draft Budget 2017-18 £000s	Change £000s
Repairs & Maintenance	15,499	13,815	(1,684)
Rents, Rates, & Other Property Costs	5,937	5,789	(148)
General Management	11,393	12,115	722
Special Services	5,069	5,090	21
Depreciation & Impairment	22,140	21,992	(148)
Provision for Bad Debts	334	223	(111)
Gross HRA Expenditure	**60,372**	**59,024**	**(1,348)**
Dwelling Rents	(58,973)	(57,692)	1,281
Garage & Other Property Rents	(2,224)	(2,169)	55
Service Charges – General	(8,343)	(8,374)	(31)
Adjustments & Financing Items (including revenue contribution to capital)	26,248	20,030	(6,218)
Miscellaneous Income	(75)	(85)	(10)
Amenities shared by whole community	(549)	(586)	(37)
Interest Received	(175)	(175)	0
Gross HRA Income	**(44,091)**	**(49,051)**	**(4,960)**
Total Housing Revenue Account	**16,281**	**9,973**	**(6,308)**

3.2 The £6.308m movement from £16.281m to £9.973m use of reserves can be analysed by type of movement and statutory division of service as follows:

	General Mgt	Rents and Service Charges	Repairs & Maintenance	Special Services	Other HRA	Total HRA
Adjustment to base/ recharges	905	(38)	(22)	(9)	(6,537)	**(5,701)**
Inflation	79	0	3	128	(1)	**209**
Growth	(3)	585	0	58	136	**775**
Savings	(564)	(732)	(1,423)	(92)	(120)	**(2,930)**
Income increase	0	(173)	(132)	0	(125)	**(430)**
Income reduction	151	1,450	0	0	169	**1,769**
Transfers	178	(27)	(109)	(87)	45	**0**
Draft budget 17/18	**745**	**1,065**	**(1,684)**	**(1)**	**(6,433)**	**(6,308)**

Details of budget movements by type are shown in Appendix 1.

3.3 The proposed budgets will impact on the HRA Balance as follows:

Item	£000s
Brought Forward from 2015/16	(26,190)
Forecast use of balances 2016/17	9,102
Forecast Carry Forward to 2017-18	(17,088)
Draft Budget 2017-18	9,973
Forecast Carry Forward to 2018/19	**(7,115)**

3.4 A forecast reduction in the planned use of the HRA reserve balance in 2016/17 will provide a substantial resource that is planned to be utilised to fund capital expenditure in 2017-18. This will bring resources down closer to the recommended minimum balance and reduce the requirement to borrow, which incurs greater costs.

4. Background to financial planning for the HRA

4.1 Financial planning for the HRA is based upon the 30-year Business Plan. In February 2016, members approved a housing capital plan which, despite the implementation of a mandatory 1% rent reduction, indicated that it would be possible to repay HRA borrowing within the 30 year HRA business plan.

5. Council housing rents

Rent policy context

5.1 In December 2002 the executive agreed to introduce the government’s Rent Restructuring from April 2003. Under this system a target rent for each property was calculated. Rents for individual properties were set to collect the general increase, and move rent levels towards the target rents. The government initially intended that council and registered social landlord rents - for properties of similar sizes and locations - would converge by April 2011 and then extended to April 2017. This meant that the amount of increase in rent could vary for properties depending on how near they were to the target rent as calculated by the Rent Restructuring Formula.

5.2 From 2012-13, the housing subsidy system was abolished and councils are now self-financing. The proceeds of rent increases now remain with the council instead of being negated by housing subsidy payments.

5.3 Under the previous subsidy system, the council was able to finance the Decent Homes Standard, but was unable to maintain service and investment standards in the medium and long term. The introduction of self financing improved this position, enabling a higher level of investment, which has informed the recent capital programmes.

5.4 More significantly for council landlords, the self-financing regime relies on councils raising sufficient money through rents to fund their liabilities and investment needs, assessed through their HRA Business Plans.

5.5 The level of rent tenants pay was historically a decision for the council, but it was the expectation of ministers and assumption of the HRA business plan that authorities would follow the guidelines.

5.6 For 2014-15, the combination of September 2013 inflation at 3.2% and the movement towards converging rents 2016/17 meant that following rent restructuring formula would have generated an average rent increase of

5.57% for Norwich tenants. However, having considered the financial implications, this council determined that an increase of 1.5% should be applied to all rents, with no additional movement towards convergence with target rents.

5.7 For 2015/16, the government's rent policy changed to state that rent should be increased by Consumer Price Index (CPI) as of September the preceding year, plus 1% and that rent would no longer converge with target rents. This equated to a rent increase of 2.2% for Norwich tenants.

5.8 For 2016/17, the government's rent policy was replaced by a mandatory minimum 1% reduction in rent for a four year period until the end of March 2020. The reduction was set out in the Welfare Reform and Work Act 2016.

2017-18 rent adjustment

5.9 The mandatory 1% rent reduction continues for 2017-18, which for Norwich tenants, generates an average weekly rent of £77.93 which equates to an average reduction of £0.79.

5.10 In order to mitigate the negative impact of the rent reduction, it has been necessary to make changes to future proposed capital programmes to ensure that HRA borrowing continues to remain within allowable borrowing limits.

5.11 This council has invested significantly in improving its housing stock over recent years to its own 'Norwich standard'. That programme is due to complete in 2017-18 and as a result, future expenditure will reduce. In order to meet the required spend reductions, scheduled work continues to be aligned to the full extent of current expected lifecycles and only essential maintenance and upgrades will be carried out from 2018/19. In addition, reductions in cost continue to be secured as a result of contract retendering.

5.12 It is proposed that garage rents are increased by 2%. This is in line with the government formula for dwelling rents prior to the implementation of the mandatory rent reduction, based on CPI as at the preceding September (1%) plus 1%.

5.13 In accordance with the constitution, levels of tenants' service charges will be determined by officers under delegated powers, in consultation with the portfolio holder and after engagement with tenant representatives.

Update on Housing and Planning Act 2016

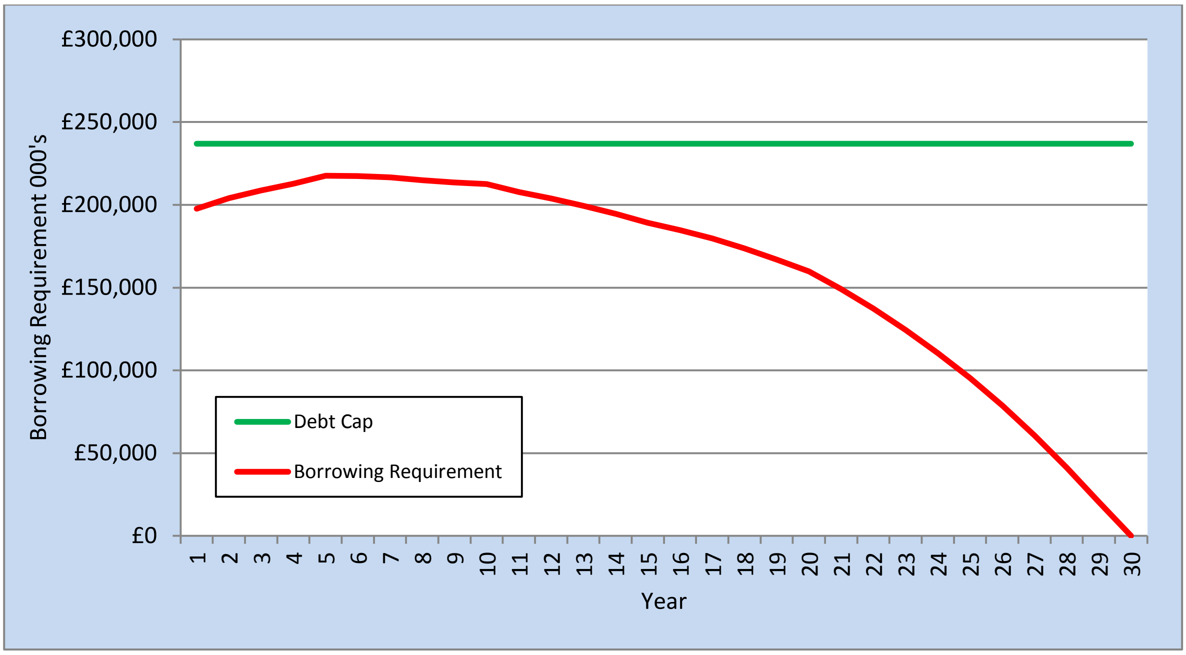
5.14 The Housing and Planning Act 2016 introduced the following two elements with potential significant financial impact on the HRA Business Plan:

- Pay to Stay (requiring social housing households earning over £31,000 per annum to pay at or near market rents)
- Extension of Right to Buy to Registered Providers (enabling financial losses resulting from discount to be recovered from the funds generated by the sale of high value void council dwellings)

5.15 It was anticipated that as a result of increased rents, the Pay to Stay requirements would generate an increased level of Right to Buy sales following its implementation. However, the government have subsequently announced that they no longer plan to implement this element of the Act, therefore the HRA business plan has been updated to reflect this.

5.16 In order to compensate Registered Providers for financial losses incurred as a result of the extended Right to Buy legislation, the Housing and Planning Act made provision for a determination to be imposed on Housing Revenue Accounts based on the value of their stock, in lieu of being forced to sell high value void dwellings. It has been indicated that the sum may represent an additional significant annual capital cost, but the formula upon which the determination will be based is still unknown and it is therefore not possible to estimate the cost to the council or to draw up any detailed plans to address this. However, the government has confirmed that there will be no determination levied in the 2017-18 financial year.

5.17 The chart below illustrates the impact on the updated HRA Business Plan and HRA borrowing requirement of the proposed 2017-18 budgets and housing capital programme with rent continuing to reduce by 1% for the next 3 years. This demonstrates that the borrowing can be repaid within the 30 year life of the business plan.



6. Report by the chief financial officer on the robustness of estimates, reserves and balances

6.1 Section 25 of the Local Government Act 2003 requires that the chief finance officer of the authority reports to members on the robustness of the budget estimates and the adequacy of council's reserves.

6.2 The chief finance officer is required to provide professional advice to the council on the two above matters and is expected to address issues of risk and uncertainty.

Estimates

6.3 As with all future estimates there is a level of uncertainty and this has been taken into account when building the business plan and assessing the levels of reserves. In particular, until the level of the anticipated high value voids determination is known detailed actions to address it cannot be built into the HRA business plan. We do know that there will be no determination levied in 2017-18 so at this stage no allowance has been made for the determination in the plan other than to retain an amount of £2.75m in the prudent minimum balance of HRA reserves to contribute to any future pressure arising from the introduction of this payment. When the business plan is revised for 2018/19 more information on the level of the determination should be available. The government's expectation is that the council will sell properties which become empty to fund the determination.

6.4 Allowing for the above comment on uncertainty and the need to adapt the plan in future years once the value of the high value determination is known, it is the opinion of the chief finance officer that in the budgetary process all reasonable steps have been taken to ensure the robustness of the budget.

Reserves

6.5 A risk assessment has been undertaken to determine the level of HRA general reserves required by the council, which has been set at £5.885m as set out in Appendix 2.

6.6 In making a recommendation for the level of reserves the chief finance officer has followed guidance in the CIPFA LAAP Bulletin 77 – Guidance notes on Local Authorities Reserves and Balances.

6.7 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

6.8 HRA earmarked reserves remain legally part of the HRA although they are accounted for separately.

6.9 There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

a) the balanced budget requirement (England, Scotland and Wales) (sections 32, 43 and 93 of the Local Government Finance Act 1992)
b) Chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003 when the authority is considering its budget requirement (England and Wales)
c) the requirements of the Prudential Code
d) auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

6.10 Whilst it is primarily the responsibility of the local authority and its chief finance officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

Role of the chief finance officer

6.11 Within the existing statutory and regulatory framework, it is the responsibility of the chief finance officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose. The risk analysis attached as Appendix 2 shows that an adequate level of HRA reserves for the Council will be in the order of £5.885m.

7. Housing capital resources 2017-18-2021-22

7.1 The abolition of the HRA subsidy system from 1 April 2012 and the inception of 'self-financing' for council housing allowed the council, in consultation with its tenants, to develop plans for increased investment in maintaining and improving council housing in Norwich.

7.2 The additional resources made available by retaining rent income within the city, rather than passing surpluses to the government, enabled the council to adopt the Norwich Standard for maintenance and improvements of tenants' homes rather than the basic Decent Homes Standard and to adopt a Housing Investment Strategy (as considered by cabinet on 14 November 2012) to deliver new council housing, reconfiguration of sheltered housing, estate renewal, renewable energy solutions, and support to private sector housing in the city.

7.3 The following table indicates the anticipated levels of resources available to the Housing Capital Programme in future years.

Housing Capital Resources	**2017/18 £000s**	**2018/19 £000s**	**2019/20 £000s**	**2020/21 £000s**	**2021/22 £000s**
Forecast resources brought forward	0	0	0	0	0
Capital grants	(951)	(882)	(882)	(882)	(882)
Major Repairs Reserve - depreciation charges	(6,925)	(11,906)	(13,781)	(13,679)	(13,204)
HRA borrowing from headroom under debt cap	(8,788)	(484)	(200)	0	0
Revenue Contribution to Capital	(19,677)	(8,340)	(7,248)	(6,396)	0
Contributions to costs	(250)	(250)	(250)	(250)	(250)
Section 106 Commuted Sum	(817)	0	0	0	0
Capital receipts - properties uneconomic to repair	(866)	(866)	(866)	(866)	(866)
Capital receipts arising from RTB	(3,032)	(2,950)	(2,328)	(1,940)	(1,940)
Retained "one for one" RTB Receipts	(10,044)	(2,608)	(3,574)	(2,000)	(2,000)
Gross forecast resources	**(51,349)**	**(28,286)**	**(29,129)**	**(26,012)**	**(19,141)**
Forecast resources utilised	51,349	28,286	29,128	26,012	19,142
Forecast resources carried forward	**0**	**0**	**0**	**0**	**0**

7.4 Proposed housing capital expenditure includes continuing to maintain the structural integrity of tenants' homes, delivering the Norwich Standard of maintenance and improvement, and investment in accordance with the objectives set out in the Housing Investment Strategy.

7.5 All planned capital costs and resources are incorporated into the HRA Business Plan projections.

7.6 All risks relating to the resourcing and delivery of the capital plan are identified and managed in accordance with the council's *Risk management strategy*.

8. Recommended housing capital programme 2017-18 – 2021-22

8.1 The following table details the proposed *Housing capital programme* for approval:

Scheme	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
Proposed carry-forward from 2016/17	7,089				
Home Upgrades	6,819	6,699	5,785	5,785	4,635
Heating Upgrades	4,057	4,050	2,750	3,750	3,150
Window & Door Upgrades	2,004	1,455	1,355	455	205
Insulation	660	660	500	400	200
Community Safety & Environment	494	150	150	150	150
Sheltered Housing Regeneration	550	115	113	113	112
Preventative Maintenance	6,969	7,825	7,925	7,825	5,385
Supported Independent Living	1,180	800	800	800	800
Site Formation	50	50	50	50	50
Fees	755	755	755	755	755
Neighbourhood Housing	**30,628**	**22,559**	**20,182**	**20,082**	**15,442**
Proposed carry-forward from 2016/17	5,514				
New Build Social Housing	7,213	2,027	5,246	2,230	0
RTB Buyback Programme	500	500	500	500	500
Housing Investment	**13,227**	**2,527**	**5,746**	**2,730**	**500**
Proposed carry-forward from 2016/17	69				
Capital Grants to Housing Associations	6,226	2,000	2,000	2,000	2,000
Home Improvement Agency Works	1,200	1,200	1,200	1,200	1,200
Strategic Housing	**7,495**	**3,200**	**3,200**	**3,200**	**3,200**
Total Housing Capital Programme	**51,349**	**28,286**	**29,128**	**26,012**	**19,142**

8.2 The outcomes that will be supported by the planned expenditure on the council's own stock compared to previous years, will be as follows:

Housing Capital Programme	2014/15 Outcomes	2015/16 Outcomes	2016/17 Outcomes	2017/18 Planned	*Change 2016/17 to 2017/18*
New kitchens	1,557	1,575	1,144	508	-636
New bathrooms	1049	1,049	1,559	587	-972
Heating systems/boilers	999	984	617	791	174
New composite doors	4,015	2,622	3,032	1,740	-1,292
New PVCu windows	34	68	69	126	57

8.3 These outcomes reflect the end of the windows programme, and the continued focus on the replacement doors programme.

8.4 In addition, future capital programmes anticipate the building of 163 new council homes over the next 5 years.

8.5 The capital programme proposed above will be supplemented by resources and commitments brought forward from the 2016/17 capital programme.

Integrated impact assessment

NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report

Report author to complete	
Committee:	Cabinet
Committee date:	1 February 2017
Head of service:	Justine Hartley, chief finance officer
Report subject:	Housing Budgets and Rents 2017-18
Date assessed:	
Description:	This integrated impact assessment covers the proposed housing budgets and council housing rents for 2017-18.

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	The recommendations of the report will secure continuing value for money in the provision of works and services to council tenants
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☒	☐	☐	
Financial inclusion	☒	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☒	☐	☐	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	x			
Eliminating discrimination & harassment	x			
Advancing equality of opportunity	x			
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	x			
Natural and built environment		x		The proposed housing capital programme will provide for the Norwich Standard for properties to be completed
Waste minimisation & resource use	x			
Pollution	x			
Sustainable procurement	x			
Energy and climate change		x		The proposed housing capital programme will provide for the Norwich Standard for properties to be completed which includes improvements in thermal and carbon efficiency

(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	☐	☒	☐	The risks underlying the budgets, rent increase, and capital plan and programme have been assessed and prudent provision made for the financial consequences of those risks both within the budgets and the recommended prudent minimum level of HRA reserves
Recommendations from impact assessment				
Positive				
None				
Negative				
None				
Neutral				
None				
Issues				
None				

APPENDIX 1

Draft Housing Revenue Account budgets 2017-18

Budget movements by type

Adjustment to Base / Transfers	**£000s**
Increase in contingency budget	379
Increase in corporate recharges	504
Other recharge changes	(157)
Revenue Contribution to Capital	(6,427)
Adjustment to Base / Transfers	**(5,701)**

Inflation/Pensions Growth	**£000s**
Contract/expenditure inflation (including living wage impact)	97
Staff salary inflation and increments	74
Pension added years and pension deficit inflationary adjustments	38
Total Inflation/Pensions Growth	**209**

Growth	**£000s**
Increase in estimated depreciation costs	570
Increase in contribution to insurance ear-marked reserve	138
Additional recharges resulting from review of citywide recharges between the GF and HRA	50
Increase in corporate debt management costs	13
Other growth (under £10k)	4
Total inflation and Growth	**775**

Income Reduction	**£000s**
Reduction in rents	1,449
Increased voids on garage rentals	134
Loss of funding from the County Council for Families Unit	151
Reduced rental income on commercial properties	35
Income Reduction	**1,769**

Savings	£000s
Savings from repairs and maintenance programme	(1,364)
Reduction in Item 8 debt costs	(732)
Housing management restructure	(125)
Reduction in professional advice budgets	(154)
Reduction in garage repairs budget	(50)
Budget for software costs no longer required	(44)
Saving from centralisation of pool car fleet	(35)
Reduced budget on sheltered alarm contract costs	(33)
Closed area offices	(17)
Other savings (individually under £10k)	(75)
Appendix 5 items	(301)
Total Savings	**(2,930)**

Income Increase	£000s
Lower anticipated void rate on council properties	(169)
Increased income for tenant contributions to repairs	(132)
Increase in income from garage rentals	(105)
Additional Income (individually under £10k)	(24)
Income Increase	**(430)**

APPENDIX 2

Housing Revenue Account – Prudent Minimum Balance

Estimate of prudent level of HRA reserves 2017-18

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Description	Level of risk	Amount at risk	Risk
Employee Costs	*High*	6,301,030	31,505
Supplies and Services	*High*	2,466,566	5,933
Premises Costs	*High*	7,821,884	19,555
Transport Costs	*High*	122,209	306
Contracted Services	*Medium*	14,241,170	106,809
Fees and Charges	*Medium*	1,914,875	28,723
Investment Income	*Medium*	175,000	5,250
Rents & Service Charges	*Low*	67,238,141	168,095
Financing Items	*Medium*	31,709,938	95,130
Total One Year Operational Risk			461,539
Allowing three years cover on operational risk			**1,384,617**
Balance Sheet risk			
Issues arising from Welfare reform			**750,000**
General Risk			
Unforeseen events			**1,000,000**
Inability to fund future high value voids determinations			**2,750,000**
ESTIMATED REQUIRED LEVEL OF HRA RESERVES			**5,884,617**

Operational cost risk profiles

		Low Risk	*Med Risk*	*High Risk*
Employee Costs	overspend	1.00%	2.50%	5.00%
	probability	25.0%	15.0%	10.0%
	amount at risk	15,753	23,629	31,505
Supplies and Services	overspend	1.00%	2.50%	5.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	2,467	4,625	6,166
Premises Costs	overspend	1.00%	2.50%	5.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	7,822	14,666	19,555
Transport Costs	overspend	1.00%	2.50%	5.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	122	229	306
Contracted Services	overspend	5.00%	10.00%	15.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	71,206	106,809	106,809
Fees and Charges	overspend	5.00%	10.00%	15.00%
	probability	25.0%	15.0%	10.0%
	amount at risk	23936	28723	28723
Investment Income	shortfall	10.00%	20.00%	30.00%
	probability	20.0%	15.0%	10.0%
	amount at risk	3,500	5,250	5,250
Rents & Service Charges	shortfall	1.00%	1.50%	2.00%
	probability	25.0%	15.0%	5.0%
	amount at risk	168,095	151,286	67,238
Financing Items	overspend	1.00%	2.00%	3.00%
	probability	15.0%	10.0%	5.0%
	amount at risk	47,565	95,130	47,565