

# Cabinet

30 January 2017



**Report Title:** Housing Revenue Account 2017/18 budget proposals

**Ward:** Citywide

**Strategic Director:** Alison Comley, Strategic Director, Neighbourhoods

**Report Author:** Nicky Debbage, Service Manager – Business Planning & Service Development

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## **Purpose of the report:**

To seek approval to the proposals for the 2017/18 Housing Revenue Account (HRA) budget; which have been tested within a 30-year financial business plan model.

## **Recommendation for the Mayor's approval:**

1. To approve the HRA budget for 2017/18, tested within the context of the 30-year financial business plan model
2. To approve the detailed capital & revenue investment plan for 2017/18 that underpins the 2017/18 HRA budget,
3. To delegate authority to the Strategic Director Neighbourhoods to undertake the procurement required during 2017/18 to help deliver the capital & revenue investment plan (as set out in paragraph 19 and Appendix 3 & 3i).



## The proposal:

### Background – budget setting assumptions

1. Following the implementation of self-financing for council housing in 2012 and after considerable consultation with stakeholders, Housing developed an Housing Revenue Account (HRA) landlord strategy and accompanying 30-year financial business plan model. This strategy was built on the improved financial position of the HRA primarily funded through rents increasing above inflation in line with government policy. The strategy aimed to deliver the objectives: Meet Housing Need, Quality Homes & Neighbourhoods, Provide Sustainable Tenancies. The key actions in that strategy included building 1,000 new council homes over 15-years, bringing all homes up to an improved Bristol Homes Standard, improving relet standards, increased staffing and improved processes to help sustain tenancies.
2. However, since development of our landlord strategy, government policy has shifted considerably. This year (2016/17) rent levels reduced by 1%, the first year of the policy which is due to be in place for four years, 2016-2020. The timing and detail of other issues that will impact on the HRA (higher value levy, mandatory Flexible Tenancies) is still uncertain but will not impact on the 2017/18 budget. Some Welfare Benefit Reform measures have already been implemented and begun to have an impact on arrears (Under-Occupation Charge, Overall Benefit Cap) but so far only a small number of tenants are affected by Universal Credit with the timetable for significant roll-out not until 2018.
3. The compound impact of these changes on our HRA financial business plan is substantial. Our initial modelling of the changes in the 2016-46 HRA business plan model shows that savings of around 15% are required across all aspects of HRA spending in order to balance the plan.
4. In the context of these major changes and the need to make substantial savings, Housing's landlord strategy is undergoing major review. The aim of this review is to examine all services to identify new approaches that will deliver savings but, as far as possible, still help achieve our high level objectives and contribute towards the housing strategy aims. This landlord strategy 'reset' is likely to be an iterative process starting with a reduced 2017/18 budget, followed by further consultation with stakeholders to develop clear costed longer-term plans. Our aim is to achieve a financial plan that balances for at least 10-years but not necessarily for the full 30-years, given the level of uncertainty about future government policy.
5. The 2017/18 budget (detailed in Appendix 1) has been developed in the context of the need to make significant savings to ensure the viability of the HRA. The proposed 2017/18 budget has been tested within an updated 30-year financial business plan (detailed in Appendix 2), to check that the savings identified have sufficient impact to move towards a longer-term balanced business plan.
6. Whilst the 2017-47 financial business plan is a first draft, and requires further testing and consultation with stakeholders, it does confirm that our revised approach, in particular reduced investment plans (as detailed in Appendix 3) delivers a viable HRA for the medium – long-term (the HRA business plan balances for 16 years).
7. The key elements of the revised landlord strategy that underpins the 2017/18 budget and financial business plan include:

## 8. Rents

Rents will remain as Social rents, the most affordable form of housing, and will be set following government policy meaning a reduction of 1% for 2017/18 and a further two years. The resulting average weekly rent (52-week) in 2017/18 will be £80.19.

## 9. Service Charges

Separate charges will be levied to recover the costs of specific services provided to some tenants, such as caretaking or CCTV. These charges can only cover costs (not generate additional income) and will therefore rise in line with cost increases.

## 10. Voids

Measures are being put in place to reduce the number of homes becoming empty unnecessarily and the time homes are empty between tenancies. Teams in Response and Estates are improving processes to speed up relet times, such as making better use of the notice period. Some reductions to the relet standard are also being made to reduce the work undertaken and the time taken to relet homes. Closer working with new tenancies will help us understand the support needs of tenants, and regularly reviewing how the tenant is coping should reduce tenancy failure and 'churn'. Managing end of tenancy processes should ensure fewer homes are left in very poor condition by the outgoing tenant.

## 11. Bad debts

The business plan includes a forecast for the amount of money to be set aside to cover bad debts (i.e. older former or current tenants' arrears that are not collectable). The provision for bad debts is more than required in previous years and is forecast to increase further as the full impact of welfare benefit reforms is felt, in particular the rollout of Universal Credit – as c.70% of tenants are in receipt of housing benefit. This figure is a high risk factor and will need to be monitored closely.

## 12. Repair & Investment of existing homes

The repair and improvement of existing homes is planned using comprehensive house condition and energy performance data, building element lifecycles and accurate costings. Investment planning aims to ensure repairs and replacement of key building elements is undertaken in a timely way so homes continue to meet the government's Decent Homes Standard. The plan also focusses spend on tenants' priorities such as affordable warmth, kitchens, and health and safety. However, the investment plan is significantly reduced from previous plans and no longer includes funding for investment such as the cladding of all non-traditional homes or a proactive bathroom replacement programme, and other investment programmes have been elongated to spread costs over a longer period (see Appendix 3 for further detail).

## 13. New homes

Our commitment is to continue to build as many new council homes as possible and the HRA business plan model shows that 785 new council homes can be funded in the 1st 15 years of the plan – this is a reduction from the 1,000 that had previously been planned. However, a changed approach is needed to try to 'stretch' resources as far as possible to deliver the maximum number of homes. Plans to do this include investigating the development of a mixture of council and private homes (to be sold to help fund council homes) and reviewing specifications, procurement routes and delivery mechanisms. Additional Right To Buy receipts will be retained locally and re-invested in new homes (these receipts can be used to fund 30% of the cost of new affordable homes) where possible.

## 14. Management costs

A reduction in the cost of delivering services (staffing and overheads) has been achieved for 2017/18

through a reduced staffing establishment (achieved by deletion of vacant posts and limited agreement of voluntary severance of existing staff). These efficiency savings will be sustained through the introduction of a new housing management IT system, streamlined processes, increased mobile working and digital access to services for customers. A significant element of management costs are recharges from the General Fund for services delivered by other parts of the council to support council housing (e.g. support services such as human resources or ICT or specific services such as rehousing or grounds maintenance). It is assumed that these recharges will also reduce as efficiencies and savings are delivered across the council.

### **15. Borrowing & Debt**

The budget and business plan assume no repayment of debt on the HRA – meaning the re-investment of all surplus income to spend on new & existing homes and services. The current level of debt of the HRA is £245m and the cost of servicing these debts is £11.3m per annum, which remains virtually constant throughout the business plan as the majority of HRA loans are long-term/fixed rate interest.

16. The debt cap on the HRA is £257m, this means we would only be able to borrow a further £12m. Currently we are not planning on borrowing this £12m to invest in homes, therefore it remains as a 'contingency' and an option for the future should it be required.

### **The HRA Budget 2017/18 and longer-term business plan model**

17. We have carried out initial modelling to assess the impact of the reduced 2017/18 budget, together with forecasts of similar approach for the remaining 29-years, on our long-term HRA Business Plan. The result is attached as Appendix 2 to this report and in summary shows we are able to balance the HRA BP for 16-years. However, there is insufficient funding from year 17 onwards and by 30-years the total funding gap of capital investment is £210m. This shortfall is despite using all of the current £90m held in reserves. However, further testing of the assumptions used in that BP will be needed with a range of stakeholders - primarily BCC tenants and leaseholders.

18. This is a marked improvement on our financial forecast in our previous base HRA business plan for 2016/17. This plan used the 2016/17 budget as the 1st year of the plan and forecasts in line with our previous landlord strategy (prior to the financial pressures arising from rent reductions and other government policy changes). The output from the 2016/17 HRA business plan is also attached as part of Appendix A and shows, prior to savings in the 2017/18 budget, the HRA was forecast to not fully funded from year 3 onwards. By year 10 the funding gap was forecast to be £47.4m of revenue, and £76.7m of capital.

19. Appendix 3 provides comprehensive detail of the capital and revenue budget for investment in homes in 2017/18, together with longer-term investment plans that underpin the 30-year financial business plan. Previously, plans for procurement of contractors to undertake investment projects / programmes (over £0.5m) that are included in HRA budget have been the subject of separate Cabinet approval reports. However, it is proposed for 2017/18 that approval of the procurement required to deliver the repair and investment of council housing should be part of approval of the 2017/18 budget and then authority should be delegated to the Strategic Director Neighbourhoods, in consultation with the cabinet member for Homes, to appoint relevant contractors.

20. The 2017/18 budget proposals together with projections in the business plan model have been used to provide a 3-year medium term financial plan for the HRA. Details of this are set out below.

### **HRA budget 2017/18 – 2019/20**

Income Revenue	2017/18 £m	2018/19 £m	2019/20 £m	Revenue Spending	2017/18 £m	2018/19 £m	2019/20 £m
Gross Rent	113.4	111.6	111.9	Revenue repairs	31.7	32.8	33.3
Voids	-1.7	-1.6	-1.5	Management costs	25.9	26.2	26.4
Net Service charges	8.4	8.6	8.8	Service costs	8.5	8.6	8.7
Other revenue income	1.3	1.4	1.4	Debt costs	11.3	11.3	11.3
				Bad debts	2.9	3.0	3.7
				Other	1.9	1.9	1.9
				Depreciation	24.7	25.4	26.0
				Other revenue financing of capital	15.0	10.8	9.3
<b>Revenue Income Total</b>	<b>121.4</b>	<b>120.00</b>	<b>120.6</b>	<b>Revenue Spend Total</b>	<b>121.9</b>	<b>120.0</b>	<b>120.6</b>
<b>Revenue Surplus/(Deficit)</b>					<b>(0.5)</b>	<b>-</b>	<b>-</b>
<b>Income Capital</b>				<b>Capital spending</b>			
Useable Capital receipts applied	2.4	3.9	3.0	Capital investment	42.1	47.1	44.6
Depreciation	24.7	25.4	26.0				
Other revenue financing of capital	15.0	10.8	9.3				
Capital receipts / capital reserves	0.0	7.0	6.3				
<b>Capital Income Total</b>	<b>42.1</b>	<b>47.1</b>	<b>44.6</b>	<b>Capital Spend Total</b>	<b>42.1</b>	<b>47.1</b>	<b>44.6</b>

21. This small revenue deficit in 2017/18 of £0.5m will be funded from existing reserves. This leaves reserves in the HRA of:

- Revenue reserves - £44.6m
- Capital receipt reserves - £28m
- Earmarked reserves - £32m (including a £25m of Additional 1-4-1 RTB receipts that can only be used to support 30% of the cost of new homes).

These reserves will be carried forward and available to fund future HRA expenditure – and are critical to keeping the HRA Business Balanced for a number of year – see Appendix 2.

## Consultation and scrutiny input:

### a. Internal consultation:

All service areas in the Housing Revenue Account have contributed to the development of the proposed 2017/18 HRA budget. Corporate Finance have been extensively involved in the development of the HRA budget and the production of the 30-year financial business plan model

### b. External consultation:

Proposals for the capital and revenue investment plan have been consulted with tenants' on the Repairs & Maintenance Service User Group who were supportive of the plans which they felt reflected tenants' priorities for their homes

The HRA budget proposals have been consulted with the Housing Management Board, a scrutiny group consisting of tenant and leaseholder representatives together with councillor representatives from the main parties. The Board were supportive of the plans for the HRA budget in 2017/18 and the longer term approach to producing a viable business plan.

The HRA business plan model is due to be scrutinised in further detail by Neighbourhoods Scrutiny in February 2017

#### Other options considered:

A viable HRA budget must be proposed. Example approaches to balancing the HRA were discussed with Housing Management Board and the proposed budget reflects this approach

#### Risk management / assessment:

**FIGURE 1**

**The risks associated with the implementation of the (subject) decision :**

No.	RISK  Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES  Mitigation (ie controls) and Evaluation (ie effectiveness of mitigation).	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	Significant and unexpected events or emergencies By its nature, the financial risk is uncertain	High	Medium	The HRA holds significant reserves as well as a minimum operating balance that ensures funding is available for emergency purposes	High	Low	Steve Barrett / Mary Ryan
2	Potential overspend and HRA does not deliver required level of savings to balance spending plans Challenging savings have been identified within our spending plans.	Medium	Medium	High risk budget areas have been identified and regular monitoring is targeted in these areas with regular progress reports on delivery of savings to Management Teams	Medium	Low	Steve Barrett / Mary Ryan
3	Reduced rental income as a result of welfare benefit reform	Medium	High	Provision for higher arrears have been made within the budget and business plan. Regular Monitoring of arrears is undertaken. Mitigating action to try to minimise the impact of WBR are in place	Medium	Medium	Steve Barrett / Mary Ryan

**FIGURE 2**

**The risks associated with not implementing the (subject) decision:**

No.	RISK  Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES  Mitigation (ie controls) and Evaluation (ie effectiveness of	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	An unbalanced / unviable HRA – which is not legal	High	High	Setting of viable 2017/18 budget and understanding of longer term approach required through development of 30-year business plan	High	Low	Steve Barrett / Mary Ryan

**Public sector equality duties:**

Equalities Impact Assessment is included at Appendix 4

**Eco impact assessment**

ECO assessment is included at Appendix 5

**Resource and legal implications:****Finance****a. Financial (revenue) implications:**

The Mayor in Cabinet is recommended to agree the Housing Revenue Account Budget for 2017/18, which reflects the requirement, as set out in the Welfare Reform and Work Act 2016, to reduce social rents by 1% per annum for the four year period from 2016 to 2020. The impact of this change in government policy has led to a significant loss on income to the HRA. This is because the business plan assumed a level of annual inflationary increase. This widening gap has led to the need for a fundamental review the medium term financial strategy for the HRA, as well as the longer term business plan – as the net loss of rent in effect reduces base rental income assumptions for the whole 30 year financial model.

The Council has a duty to agree a balanced HRA budget for the next financial year, as well as a sustainable long term business plan, which takes account of capital investment needs in its stock and the revenue costs of managing and maintaining it. All revenue expenditure must be contained within the assumed income over the medium term. In addition the HRA should maintain an appropriate level of reserves, which will be used in the longer term to finance capital investment not supported through the annual depreciation charge. Utilisation of reserves over the period of the 30 year business plan is outlined in Appendix 3.

The budget savings required to ensure revenue costs are contained within an affordable envelope to ensure a medium term sustainable HRA are set out in Appendix 1.

There are significant financial risks to the sustainability of the HRA going forward. The report outlines the potential impact of ongoing welfare reform, such as reduction of the benefit cap – particularly for larger households. A further risk is the yet to be finalised sale of higher value properties, as set out in the Housing and Planning Act 2016.

Authority is also sought in the report to delegate re-procurement of a number of contracts which need to be renewed during the year. These are set out in Appendix 3 of the report. The Council has a duty to ensure Best Value and these will need to be undertaken in accordance with OJEU regulations and the Council's procurement rules.

**Advice given by**            **Chris Holme – Interim Head of Corporate Finance**  
**Date**                        **03/01/2017**

**b. Financial (capital) implications:**

Over 40% of the annual costs attributable to the HRA relate to capital expenditure and its financing. The change in government policy on social rents and other financial risks outlined above have required a review of capital expenditure both in the medium term and over the period of the 30 year business plan to ensure sustainability. Appendix 3 details the proposed amendments to the capital programme.

The business plan assumes some 200 right-to-buys for 2017/18. This will generate some £10.6m of useable capital receipts. However £6.3m form part of the 1-4-1 agreement with DCLG, which must be earmarked for expenditure on new affordable housing – either by the Council itself, or via a registered provider. The receipt can only fund a maximum of 30% of new development. Failure to spend receipts within 3 years, under the agreement, means they must be paid over to the Treasury with a punitive interest rate. This net loss of stock will further reduce revenue resources available to the HRA.

**Advice given by** Chris Holme – Interim Head of Corporate Finance  
**Date** 03/01/2017

**Comments from the Corporate Capital Programme Board:**

Not applicable

**c. Legal implications:**

To ensure the implementation of the programme is lawful, all procurement and contracting activities must comply with the appropriate Procurement Regulations and the councils own procurement rules. Officers must also ensure the programme remains compliant with the Council's budget and policy framework.

**Advice given by** Eric Andrews, Senior Solicitor  
**Date** 15/12/16

**d. Land / property implications:**

No specific property comments

**Advice given by** Robert Orrett, Service Director - Property  
**Date** 15/12/16

**e. Human resources implications:**

The anticipated reduction in recharges from the General Fund for support to housing services, such as HR and ICT, is not likely to have an impact on the overall establishment of support resources required in those areas of the council. Therefore, there are no HR implications as a result of the Housing Revenue Account 2017/18 budget proposals.

**Advice given by:** Sandra Farquharson, HR Business Partner, Neighbourhoods  
**Date** 09-12-16

**Appendices:**

- **Appendix 1 - The 2017/18 Proposed Housing Revenue Account Budget**
- **Appendix 2 - HRA Business Plan model 2017/18 – 2047/48**
- **Appendix 3 & 3i – Capital & Revenue Investment plan details for 2017/18 and 30-year investment assumptions**
- **Appendix 4 – Equalities Impact Assessment**
- **Appendix 5 - Eco Assessment**

**Access to information (background papers):**

Not applicable