ANNEX 1

2015-2018 Financial Planning and Budget Process:

Cabinet’s Final Budget Proposals for the Housing Revenue Account (HRA) Business Plan and Budget for 2015-2018

15 Januarv 2015

North Tyneside Council

Section 1
The 2015-2018 Financial Planning and Budget Process

1.1 Introduction

This meeting of Cabinet is being asked to approve the Housing Revenue Account (HRA) Business Plan and Budget for 2015/16, including the housing rent, garage rent and service charge increases and the HRA elements of the Investment Plan.

The Council is responsible for the management of just over 15,000 properties. The funding of these properties is required by law to be entirely separate from the rest of the Council's finances within what is known as the Housing Revenue Account (HRA). Thus the council tax payer cannot subsidise those in social housing but nor can the rents and service charges paid by the tenants be used to fund unrelated council services.

Under the Local Government and Housing Act 1989, it is illegal for a council to budget for a deficit on its HRA. In April 2012 the self-financing regime for council housing finance was introduced. Following the introduction of these reforms, the financial outlook for the HRA has improved, and this has enabled further resources to be identified for capital investment in the existing stock, and to continue a programme of new build council housing, which has already seen a number of schemes completed producing the first new council housing in the Borough for over 25 years.

This report revisits the major issues impacting on the HRA budget, in particular in relation to Government policy on rent, the treatment of debt, and the future investment needs of the stock, where they are relevant to the future of the Business Plan, and the decision-making process as we move into the fourth year of self-financing.

The report also analyses the continued implications for the HRA of significant changes which are still occurring, namely:

- Welfare Reform – particularly the introduction of the charge for tenants under-occupying their properties from April 2013, and the introduction of Universal Credit – now not planned to be fully rolled out before 2017, where rolling a range of benefits into one direct payment for our tenants will create budget management issues for some, and income collection pressures for the Authority in collecting monies which are currently paid directly into Authority's rent collection arrangements through the housing benefit system; and,

- Right to Buy (RTB) – the Government's revised scheme announced in 2012 increasing the discounts available to Council tenants, coupled with a national advertising campaign has revived interest in the RTB option for our tenants. Self-financing assumed a relatively modest level of RTB over 30 years. This report provides an update on further actual and proposed changes which could cause resource problems for the HRA.

This report sets out the efficiencies, financial and service pressures on the HRA identified through the financial planning process. Cabinet will wish to take these into account when it considers the draft HRA financial plan for 2015/16 to 2017/18 and the associated 4-year Investment Plan 2015-2019.

Cabinet will be pleased to note that the 2015/16 budget proposals also provide for the continuation of a programme of new build Council Housing. 2013/14 saw the completion of new homes at Station Road (re-named Swan Close), and 2014/15 continued this progress with the Byrness Court scheme (re-named Barr Close), along with a number of conversions to bring existing properties back into use. The approach to the building of these homes was approved by Cabinet in the 13 August 2012 report “Building Council homes”, and developed by the 14 October 2013 report “Delivering Affordable Homes”, to fulfil Cabinet’s aspiration to undertake a much more extensive programme of new build, as part of an ambitious plan to develop and help deliver up to 3,000 affordable homes in the borough in the next 10 years. The HRA Business Plan identifies over £60m of additional resources available over the next 10 years to support council house new build as part of those ambitions.

Cabinet will be aware that a long-term view of the HRA financial position is regularly taken. For the purposes of the current Financial Planning and Budget process a three-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that the second and third year projections are only indicative at this stage. As part of the self-financing process the Authority has continued to develop its 30-year plans to ensure the long-term viability of the HRA.

Historically, the HRA budget-setting process always revolved around HRA Subsidy Determinations, which had a major impact on the HRA budget. Self-financing has changed that, the critical determinants of the budget now being the rent increase, rent collection rates, the Treasury Management Strategy, and how we control the costs of managing and maintaining stock and the future stock investment needs.

Setting the rent is still crucial to the HRA budget-setting process. The Chancellor’s Spending Review statement in June 2013 included proposals to effectively end rent convergence a year early, and set a new social rent policy for the next 10 years. From 2015/16 rent increases for the next 10 years will be based on the Consumer Prices Index (CPI) inflation measure plus 1%, instead of RPI plus ½%. This represents a fundamental change to some of the basic assumptions within the self-financing model, which considered alongside changes to the RTB scheme and Welfare Reform changes, provide a challenge to maintaining the resource base within the plan. Based on CPI at September 2014 of 1.2%, the recommended average rent increase for 2015/16 for North Tyneside will be 2.2%.

The change in rent policy was announced as giving the social housing sector greater certainty in its planning. At that time CPI (2.7% for September 2013) was trending at ½% a year below RPI (3.2% for September 2013), which in itself logically would make little difference to rent levels i.e. RPI + ½% compared to CPI + 1%. The difficulty for future planning is the timing of the change, and potential changes to the basis of the calculation, rather than the overall intention to provide certainty, because:

- As feared, CPI and RPI have diverged as measures of inflation. The gap was 0.5% a year ago but now stands at 1.1% as RPI in September 2014 was 2.3% compared to CPI at 1.2%. The Office of Budget Responsibility (OBR) had predicted this divergence but what they had not estimated was that both measures would be so low. The Government target measure for CPI was 2%; and,

- Applying the policy from 2015/16 effectively ends rent restructuring a year early, which for authorities such as North Tyneside who were on a steep convergence path, will mean a significant loss of resources from the Business Plan, estimated at over £50m during the next 30 years.

Hence, under these proposals, tenants are likely to see lower rent increases from 2015/16 than if we had continued on the rent re-structuring path, but this acceleration of the timetable will reduce the resources available to develop the stock, improve services and build new homes. A further consequence will be that very few homes will ever converge to target rent, other than new build or significantly refurbished homes, and hence two identical council homes which currently have differential rents will never move to an equitable rent, with each other or with other homes provided by registered providers in the borough. The implications and possible mitigations for this are discussed below.

Given the significant nature of the national policy changes being implemented, the HRA has to continually revise its position as there is a degree of fluidity in a number of the key variables in this process.

Section 2
Strategic Planning

2.1 Decent Homes Standard Progress

The 2014/15 HRA budget including the Business Plan and 2014-2018 Housing Investment Plan, which were approved by Cabinet as part of the 2014/15 Financial Planning and Budget process, allowed for the Decent Homes Standard to be maintained for most of the General Needs Housing and non-traditional build properties owned by the Authority.

2.2 North Tyneside Living Project (formerly Quality Homes for Older People)

After a long road travelled Financial Close on the North Tyneside Living project was finally achieved on 26 March 2014. From that date we have seen a significant programme of refurbishment and new build sheltered accommodation commence with our Private Finance Initiative (PFI) partner S4NT (Solutions 4 North Tyneside). The Department for Communities and Local Government (CLG) approved a final allocation of Private Finance Initiative (PFI) credits of £108.634m for the redevelopment and refurbishment of the Authority's sheltered accommodation units, which equates to annual PFI credit payments of £7.370m. The project has been, and will continue to be, reviewed for Value for Money by DCLG. This project will mean that the Authority should see its sheltered accommodation brought up to the Decent Homes Standard over the next two years.

The budget proposals included within the Council's 2015-2018 HRA Plan ensure that the Council meets its obligations to ensure the successful delivery of the construction phase of the scheme, and the transition to the full and successful operation of the sheltered estate upon completion.

2.3 Asset Management

The minimum over-riding future objective is to ensure that the housing stock is maintained at the Decent Homes Standard (DHS). The Asset Management Strategy has been refreshed for the period 2015-2020 as 2014/15 is the final year of the strategy agreed in the "Better Homes – Better Lives" 2010-2015 report, approved by full Council on 9 September 2010. That report led to a new stock condition survey being undertaken to update the Investment Plan and ensure the future needs of the stock were fully identified. The results of the survey were fed into the Keystone Asset Management system. These figures are regularly reviewed and updated, to reflect the identified needs of the stock, and where possible build in the key priorities of our tenants represented via the Tenant Panels.

The implications of the survey work, along with the outcomes of the consultation processes, are fed into an updated Investment Plan. This Plan estimates the base capital need over the next four years will total £77.241m, with £1.245 billion needed over the next 30 years, excluding any assumptions on new build. If the assumptions in this report are agreed in setting the HRA rent and budget for 2015/16 and beyond, then an estimated £25.643m can be released for spend on new build homes in the next 4 years, and up to £215m could be released to build homes over the next 30 years, assuming the HRA can identify or acquire enough suitable land and there are not significant changes in the key assumptions within the plan. Given the identified need for one and two bed-roomed properties tied to the Welfare Reform changes and the potential for people to "downsize", Cabinet will continue to consider the size and types of homes it wants to see built under any proposals that come forward. This is currently done via a community housing needs assessment approach agreed with Cabinet as part of its annual Affordable Homes update in March 2014.

The assumptions used in relation to the Housing Investment Plan are fully reflected in the budget proposals outlined in this report. It is assumed that the Authority's Joint Venture partner (Kier North Tyneside Limited) will deliver the majority of the works identified for the current stock within the Investment Plan needed in order to maintain Decent Homes. A full review of Council-owned land stocks has been taking place over the last 12 months, and, as agreed by Cabinet, the plan assumes a proportion of Right to Buy (RTB) receipts, over those assumed for self-financing, will be set aside to repay debt to help maintain the viability of the HRA business plan. Any set aside will have to comply with the RTB agreement signed with Government, where the Authority agreed to use additional RTB receipts as a 30% contribution towards new build. Given the proposed new build programme, this should not be an insurmountable problem as we should be able to match spend to any targets, unless sales rose significantly, at which point the plan would have much broader problems.

2013/14 saw 122 RTB sales with total capital receipts of £4.957m, an average sale price of £0.041m compared to £0.062m had the system not been changed and with an additional retained capital receipt of £0.906m which requires new build spend of £3.019m within 3 years. There have been 40 sales to the end of September in 2014/15 with a total receipt £1.613m but with no additional "retained" receipt to-date. The increased numbers of RTB sales has been reflected in the revised Business Plan profile for stock numbers.

The proposed Investment Programme for 2015/16, excluding new build works but including currently identified re-programming from 2014/15, totals £18.092m. This compares to the last year of the backlog Decent Homes Programme in 2010/11 which saw £35.699m of capital works being delivered, completed spend of £15.272m in 2013/14 and forecast spend of £18.103m in 2014/15, all excluding new build. Under self-financing the debt settlement provided for an increase in funding available for major repairs. This, coupled with a steady increase in the level of revenue contributions available from 2014/15, makes it possible to plan for the long-term to ensure that, not only are all existing stock needs met, but that the Authority can, subject to the restrictions that may be placed by changes in Government policy, meet Cabinet's and our tenants' aspirations and begin building new council homes in earnest as part of the Affordable Homes plans. Further details on the Housing element of the Investment Plan and capital financing arrangements are included in Section 4 of this report.

2.4 HRA and Treasury Management issues following the Self-financing Debt Settlement

1 April 2012 saw the introduction of self-financing and the end of the old subsidy regime, allowing the authority to retain all rents raised locally and no longer make any subsidy payments to Central Government. The “price” of this freedom was a “one-off” re-allocation of national housing debt. In effect each authority either bought itself out of the system, or was bought out of the system. The debt settlement figure for North Tyneside was £128.193m, with an overall HRA Capital Financing Requirement (CFR) of £270.585m. This overall CFR represents the “cap” on any future borrowing. This authority had a subsidy HRA CFR of £142.392m at 31 March 2012, but an actual HRA CFR of £162.631m. The difference is because the authority borrowed significantly to finance the Decent Homes Programme. The Government agreed that any authority whose HRA CFR exceeds their subsidy CFR will have their “cap” adjusted to reflect the higher figure, otherwise we would have immediately exceeded the cap.

Hence, £290.824m was the total initial debt that the HRA had to manage within the business plan over the next 30 years. Cabinet and full Council chose to follow the recommendations of the Cabinet report “Housing Revenue Account Self-financing” (28 November 2011) re the treatment of HRA debt, that the Authority should follow the Chartered Institute of Public Finance and Accountancy’s (CIPFA), recommendation that the HRA is treated as having a separate debt pool from the General Fund. There are three elements to this:

1) Self-financing debt – the £128.193m payment to the Government funded by 25 separate loans for £5.000m each, and one loan for the balance of £3.193m with maturity periods ranging from 24 to 50 years.

   These loans are directly attributed to the HRA, and are easily managed as such. The interest rates offered by PWLB for self-financing were at a “one-off” “premium” against what were already historically low interest rates. Hence it made prudent financial sense to finance these sums long-term. The average interest rate achieved on these loans was 3.49%, equating to annual interest of £4.477m and an estimated £0.652m below the figure budgeted for 2012/13. As such, an equivalent sum is transferred to a House-building Reserve annually as agreed by full Council following final accounts agreement. The funds in this reserve are being used to help fund the programme of HRA new build and conversions approved by Cabinet under its Affordable Homes ambitions;

2) Existing Debt – the HRA’s share of the Authority’s pre-self-financing debt portfolio was valued at £162.631m as at 31 March 2012. To create a separate portfolio of existing debt for the HRA each long-term loan was split proportionally with the General Fund. At the point each loan reaches maturity, there is a separate consideration for the General Fund and HRA re whether they re-finance the loan, either long-term or short-term, or repay the debt using debt set aside. The HRA strategy agreed by Cabinet was that existing loans should be repaid where prudent and affordable. So opportunities to undertake short-term borrowing at current low rates, when loans reach maturity, has enabled some additional short-term savings to be made. These have been identified in the Treasury Management Plan, and built into the assumptions for the HRA Business Plan. For 2015/16 estimated

interest payments due on existing debt will total £5.997m, a reduction of £1.874m on the current year's budgeted charges, with a debt set aside of £1.620m. The debt set aside was reduced due to additional resources being used to fund new build and debt set aside is being built up again over the next few years of the plan;

3) New HRA Debt (short-term and long-term) – as already described, any new HRA borrowing, whether re-financing of existing loans or genuine new borrowing (currently restricted because of the debt cap), will be done via new loans which will be easily attributed to the HRA. For 2015/16 there will be re-financing of £14.389m of long-term loans and temporary borrowing of £20.488m in total with current annual interest charges of £0.658m.

It can be seen that a truly separate portfolio of HRA debt will be established with differing strategic considerations to the General Fund, albeit within the Authority's Treasury Management Strategy, as ultimately the debt is the Authority's. For 2015/16 the overall impact of the debt portfolio approach will be total estimated interest of £11.132m and a set aside cost of £1.620m, giving total estimated financing payments of £12.752m. Original budgets for 2014/15 with interest costs totalled £12.605m and set aside was £0.750m with an estimated overall cost of £13.355m. Currently it is forecast that actual costs for 2014/15 will be in the region of £13.103m realising an increased saving due to more temporary borrowing. These costs are of course now exposed to interest rate risks in the market but in the current climate represent the best estimate of the implications going forward. Although the HRA has taken on significant debt, close control of the costs of that debt will realise true benefits to the HRA over time compared to a subsidy system where payments to Government were rising exponentially.

The HRA is also restricted by the imposition of the "uplifted" debt cap at £290.824m, with current actual debt estimated to be at £280.308m by 31st March 2015. The Authority's total borrowing cannot exceed its cap at any future financial year end. However, North Tyneside Council are in a small group of authorities for whom this premise will be flexed, and that is due to the Authority's North Tyneside Living PFI Scheme. Over the build period of up to 2-3 years, significant capital costs will be incurred, which will be recognised in the Authority's Capital Financing Requirement (CFR), hence if the Authority was not allowed to break the cap to reflect the Capital spend, it would be in breach of the self-financing regulations. Written assurance has been sought and received from the Department for Communities and Local Government (DCLG) that they will work with us to ensure that the cap is flexed appropriately to reflect this. It is effectively a technical adjustment and the cap will reduce over the 28 year life of the scheme, as the debt is notionally written down.

The Authority continues to closely monitor the Treasury Management position and the impact on the HRA, and consult with the Mayor and Cabinet to ensure the best results are achieved for the HRA and our tenants. The Authority's current approach to Treasury Management is set out in the Treasury Management Strategy in Section 5 of the 24 November 2014 report to Cabinet and Appendix C to this report. Any decisions on HRA debt are made within the context of that overall strategy, seeking to ensure that the risks and impact on the HRA business plan are minimised whilst providing flexibility in terms of future investment and potential additions to the stock.

2.5 HRA Self-Financing and Depreciation

Under self-financing CLG proposed to ensure that authorities make proper provision for the future investment needs of the stock, by introducing a true charge for depreciation. As explained in the “HRA Self-Financing” Cabinet Report, the Major Repairs Allowance (MRA) is currently used as a proxy for depreciation with any revaluations and impairment charges being reversed out of the accounts; the same principle applies to the General Fund.

A true depreciation charge would need to be very carefully calculated and analysed to ensure that the HRA business plan remained sustainable. There is also a requirement to move towards assessing the different components of assets with differing lifecycles (e.g. kitchens and bathrooms), under International Financial Reporting Standards (IFRS), which could also lead to variations in depreciation charges previously used. There is also the issue of impairment to reflect the Social Use Value (SUV), which we use to value our assets which would be a bottom line charge under normal depreciation rules. To manage those concerns, and following further work and consultation with CIPFA, DCLG came up with an interim solution; to allow an up-rated MRA figure to be used as a proxy again for up to five years whilst a workable long-term option is developed. It has proposed various alternative treatments including one based on a discounted cash-flow valuation. As recommended in the self-financing report, this budget assumes that the Authority will move towards calculating a true depreciation charge, but will use the MRA proxy as a fall-back position for up to five years, whilst this issue is resolved fully. This is still a difficult issue nationally on which there has not been a lot of movement, and it is something on which CIPFA and the Chartered Institute of Housing (CIH) are still struggling to reach a consensus with DCLG. 2015/16 will be the fourth year of the transition phase, and the Authority continues to work towards a workable and affordable solution for the HRA.

Using the proxy MRA figure for 2015/16 means that the transfer to the Major Repairs Reserve that will be required in 2015/16 will increase from £14.226m to approximately £14.649m. The sums that are transferred to the Major Repairs Reserve to reflect depreciation can only be used to either pay off debt or fund major repairs. They cannot be used to balance the HRA business plan.

2.6 HRA Rent

Under the self-financing HRA system it was assumed that authorities would follow the Government’s rent restructuring policy through to a conclusion in 2015/16. The Government has now changed this policy and moved from an RPI to a CPI based calculation. The new rent proposals see rent based for the next 10 years on CPI + 1% as the average rent increase from 2015/16, meaning effectively, that rent restructuring ends a year early, and most of our properties rents will not converge with any target rent figures. In addition the business plan will lose an estimated £1.4m in rental income in 2015/16 and over £50m over the life of the plan.

The September 2014 CPI inflation rate of 1.2% indicates an average rent increase for our tenants of 2.2% from April 2015. For the following two years CPI is assumed to return to the government target of 2% which would see increases estimated at

3% for 2016/17 and 2017/18. Using the convergence formula the rent increase for 2015/16, based on RPI + 0.5% + £2 per week, would have been an average of 4.8% (RPI of 2.3% in September 2014).

In effect the Business Plan has lost the flexibility of the additional resource brought about by the £2 a week convergence element, and the difference between RPI + 0.5% and CPI + 1%, which is 0.6% based on September's inflation rates ((2.3% + 0.5%) – (1.2% + 1%)). If Cabinet wished to try and mitigate some of the impact of the change in government policy re rent increases from RPI to CPI from 2015/16, there are options that Cabinet could look at:

1) Removing the convergence deadline and moving straight to target rent for all properties in 2014/15, and seeing what the impact would be on rent increases;

2) Taking the opportunity of void re-lets to move those properties directly to target rent for new tenants;

3) Ignoring rent restructuring deadlines and continuing along an assumed path to convergence.

The first option of moving the convergence deadline would lead to an average rent increase for 2015/16 of 5.88%. This would bring significant additional resource into the Business Plan over 30 years, but needs to be considered against the impact on tenants in the current economic climate, the level of inflation, and the potential for the Government to bring in some form of penalty, as this is not a policy they endorse;

The second option involves moving all new tenancies upon re-let directly to target rent, except those tenants subject to protection e.g., sheltered tenants. Based on historical figures there are as many as 1,300 voids per annum, and it is estimated that following this policy would realise an additional £0.100m in 2015/16, and up to £60m over 30 years, more than compensating for the loss due to the ending of rent re-structuring a year early. The down side of this option could be that two neighbours in the same street in identical properties could end up paying different rents, but there are already precedents for this. Some authorities have already gone down this route: It is relatively painless and does not impact on existing tenants. Furthermore, this approach is endorsed by government and hence is unlikely to be subject to any retrospective action to reduce resources. It is recommended that Cabinet endorse this option and agree to its implementation from 1 April 2015 for void properties.

The third option is somewhere between the other two, effectively ignoring the government removal of the deadline, and calculating rents based on the old formula. Based on current inflation this would lead to 4.8% average rent increases in 2015/16 and would put back the £50m estimated loss in resources. However, again this approach is not endorsed by Government and could lead to some form of retrospective action to impose rent controls.

As mentioned above, the North Tyneside Living project will see new rents calculated for all new build and refurbished properties. It was proposed and agreed last year to provide protection for existing tenants, who would otherwise see significant increases in their rents, equivalent to any amount over and above the normal annual increase based on the current social rent they are paying in their existing property. All new tenancies would commence at the newly calculated rents. It is estimated that this protection will cost in the region of £0.110m in 2015/16 rising to a maximum of approximately £0.170m per annum in 2016/17, which will then steadily reduce.

In addition to the rent increase above, it is also assumed that service charges and garage rents increase in line with September 2014 CPI, i.e. 1.2% subject to any benefit restrictions. These changes would also be subject to any implications of the Government's Universal Credit Regulations. The Government is proposing to accelerate the single claimants' element of the changes from 2015 and, if that is successful, it will look to accelerate roll-out of future phases but we have no definitive revised programme at the moment. If there are any significant changes to the timetable for implementation, Cabinet may be asked to consider revised proposals. A full review of the service charges attached to the North Tyneside Living schemes will also need to be undertaken as the schemes move towards completion, to ensure consistency and accurate charging for the services being provided.

Additional income from the rent, service charge, and garage rent increases is included in the budget proposals for 2015/16 and the next two years. The assumptions around CPI + 1% and a move to target rent on voids have been built into the plan figures for the next three years.

The HRA Business Plan presents a significant financial challenge for the Authority. Careful management of the costs contained in the plan, along with efficient income management, has already started to bear fruit as the Authority seeks to secure the resources under self-financing to manage, maintain and invest in the existing stock and to increase the pace of investment in new stock.

2.7 Major Issues and Risks to the HRA

Significant risks to the HRA, such as exposure to the interest markets and changes to RTB, which impact on HRA cost and income streams, have already been highlighted. Last year's budget report also discussed at length the potential implications of Welfare Reform and these will continue to be monitored closely to enable sensitivities to be run on the HRA Business Plan to ensure it can cope with the majority of risks.

Mitigations for some of these changes included as part of previous years' budget proposals have been implemented. The Authority also continues to take a cross-council approach in co-ordinating a reasoned approach to some of these changes. The main mechanism within the HRA to deal with Welfare Reform provision, outside of financial inclusion measures, relates to bolstering the Bad Debt Provision within the Plan.

HRA Pressures and Income, Grant and Efficiency Opportunities have been classified in the categories used for the General Fund outlined earlier and are shown below.

Section 3
Elected Mayor and Cabinet's Proposals for the Housing Revenue Account Business Plan and Budget for 2015-2018

3.1 Overview

Paragraphs 3.2 to 3.5 below provide the build up of the financial picture for the next three years reflecting:

(a) Pressures and Growth;
(b) The Creating a Brighter Future (CBF) Programme; and
(c) Reserves and Contingency Proposals.

3.2 Pressures and Growth

Table 1 below summarises the major unavoidable pressures and variations faced by the HRA currently built into the budget. These include:-

a) Changes in sums set aside for Debt repayment (equivalent to the Minimum Revenue Provision (MRP) in the General Fund), albeit this is not compulsory in the HRA;

b) The impact of the change to introduce a true depreciation charge as part of the self-financing changes, utilising the up-rated Major Repairs Allowance (MRA) for up to 5 years;

c) The revenue effects of the proposed Housing Investment Plan;

d) The implications in revenue of the North Tyneside Living (PFI) project;

e) Increase in HRA Interest charges for refinanced / new HRA debt and changes to Debt Management Expenses (DME) & Premiums & Discounts;

f) Pension Fund Deficit Contributions & Strain on the Fund Costs;

g) Bad debt provision;

h) Transitional Protection – for existing tenants in the North Tyneside Living Scheme.

Table 1: 2015-2018 Pressures and Growth

Pressures and Growth	2015/16 £000's	2016/17 £000's	2017/18 £000's
a) Debt set aside – MRP;	870	1,140	1,130
b) MRA / Depreciation;	423	433	275
c) Housing Investment Plan - Revenue Effects;	1,323	(877)	613
d) North Tyneside Living – Unitary Charge Payments & Contributions to/from Reserves;	86	40	74
e) HRA New Debt / DME / Premiums & Discounts;	401	578	436
f) Pension Fund Deficit Contributions & Strain on the Fund costs;	31	32	33
g) Bad Debt Provision	0	119	23
h) Transitional Protection – for Rents re North Tyneside Living project;	55	60	(20)
TOTAL Pressures and Growth	**3,189**	**1,525**	**2,564**

3.3 Creating a Brighter Future Programme

As part of the 2015-2018 Financial Planning and Budget process, proposals have been made for additional income, grant and efficiency opportunities. These include:

a) The proposed rent increase brought about by following the government's new 10 year social rent policy based on the Consumer Prices Index (CPI);

b) Increased rental income from introducing policy of re-letting new tenancies based on moving direct to Target Rent;

c) Service charge income, garage rents and other rental income;

d) Savings in interest charges on re-financing of existing loans via temporary borrowing and long-term re-financing;

e) Savings and efficiencies in relation to repairs budgets;

f) Savings from North Tyneside Living Project re project and procurement costs;

g) Increased income earned from Interest on Balances; and

h) Council Tax Void Scheme – savings as North Tyneside Living scheme moves to completion and voids reduce as a result.

Table 2: 2015-2018 Creating a Brighter Future Programme

Creating a Brighter Future Programme	2015/16 £000's	2016/17 £000's	2017/18 £000's
a) Income from Rent Increase, re-basing & voids to target;	(609)	(1,554)	(2,242)
b) Income from Voids to Target;	(100)	(173)	(151)
c) Garage Rents, Service Charge & Other Income;	9	(25)	(26)
d) HRA Existing Debt – Interest savings from refinancing & temporary borrowing;	(1,874)	(681)	(533)
e) Repairs Stock reduction & VFM savings;	(115)	(35)	(39)
f) North Tyneside Living – project procurement & monitoring costs;	(20)	4	(117)
g) Interest on Balances;	(20)	0	0
h) Council Tax Void Scheme	(55)	(25)	(100)
TOTAL Creating a Brighter Future Programme	**(2,784)**	**(2,489)**	**(3,208)**

3.4 HRA Reserves and Contingencies

The proposed draft budget for 2015/16 includes a contribution from reserves of £0.640m. It is proposed to create a contingency budget of £0.386m to recognise relevant issues including any increases in inflation and any pay award for 2015/16.

Table 3: 2015–2018 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	2015/16 £000's	2016/17 £000's	2017/18 £000's
Increase in Contingencies	386	463	533
Contribution to/(from) Balances	(640)	(140)	(27)
TOTAL Change in Reserves and Contingencies	**(254)**	**323**	**506**

3.5 2015-2018 Draft Housing Revenue Account – Movement on Reserves

Table 4 below summarises the draft Housing Revenue Account movement on balances for 2015-2018, after taking account of the information and details included in Sections 3.2 to 3.4 above:

Table 4: 2015–2018 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	2015/16 £000's	2016/17 £000's	2017/18 £000's
Opening Reserve Balance	(3,405)	(2,765)	(2,625)
Add:			
Original Contributions (to) / from balances	(153)	640	140
Change in contributions (to) / from Balances	793	(500)	(113)
Predicted Reserve Balance Carried Forward	**(2,765)**	**(2,625)**	**(2,598)**

The budget monitoring position for 2014/15 to 30 November 2014, reported to Cabinet on 12 January 2015, shows projected year-end balances of £3.405m. Hence, a net contribution from balances to the HRA of £0.640m is projected in 2015/16 to give a year-end balance of £2.765m as at 31 March 2016. The budget proposals presented here ensure that a minimum of £2m is retained in HRA revenue balances each financial year covering the three years of the Council Financial Plan, to ensure some measure of contingency and financial stability. These proposals as they currently stand also balance the plan over the longer 30-year period, which is what the Government requires us to demonstrate as part of the self-financing proposals. Table 5 below summarises the Housing Revenue Account forecast plan for 2015–2018, after taking account of the information and details included in Sections 3.2 to 3.4 above:

Table 5: 2015–2018 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	2015/16 £000's	2016/17 £000's	2017/18 £000's
2015/16 Base Budget	0	0	0
Add:			
Pressures and Growth	3,189	1,525	2,564
Creating a Brighter Future Programme	-2,784	-2,489	-3,208
Reserves and Contingencies	-405	964	644
Net Forecast Expenditure Variation	**0**	**0**	**0**

A three-year financial forecast for the Housing Revenue Account 2015-2018 is attached at Appendix A for information and the Housing Investment Plan 2015-2019 at Appendix B.

Section 4
The Elected Mayor and Cabinet's Proposals for the 2015-2019 Housing Investment Plan

4.1 2015-2019 Housing Investment Plan

As outlined previously the final target year for completion of the Decent Homes Programme was 2010/11. The over-riding objective for future years is to ensure that the Housing stock is maintained to at least Decent Homes Standard as laid out in the Housing Asset Management Strategy approved by full Council on 9 September 2010, to be refreshed by an updated 2015-2019 Housing Asset Management Strategy in due course. On top of this, as resources allow, there is the intention of responding to tenant priorities around issues such as fencing and landscaping.

This Investment Plan also provides for the Authority to continue the programme of new build council housing started in 2013/14 and 2014/15 building on the "pilot" work that has been completed at Swan Close and Barr Close, and assuming that enough suitable HRA-owned land can be identified or acquired, and planning issues addressed, with the potential for up to £215m worth of new build expenditure over the next 30 years in total, and specifically up to £11.176m of new build works (including client fees and re-programming from 2014/15) in 2015/16. This is reflected in the proposed Housing Investment Plan 2015-2019 attached as Appendix B. Some of the main elements of work planned in 2015/16 (including fees) include:

(a) Decency Refurbishments of £6.182m;

(b) Central Heating and Rewire programme totalling £3.505m;

(c) Disabled adaptations of £1.000m;

(d) Cyclical / Decoration works of £1.721m;

(e) Capitalisation of Major Repairs £1.184m;

(f) Furniture Pack scheme of £0.474m;

(g) Asbestos Works of £0.253m;

(h) Environmental Improvement & Energy Efficiency of £0.201m;

(i) Other Capital Works – covering ICT Strategy; Water Pipe renewals; Garages and Communal Lifts and Fire Damage reinstatement of £0.279m;

(j) Fencing, Landscaping & Other External Works - £0.926m;

(k) Non-Traditional properties - £1.288m;

(l) PFI Homeloss payments, demolitions and sprinklers - £1.079m;

(m) New Build Council Housing - £11.176m;

Table 6 below summarises the 2015-2019 Housing Investment Plan and financing, including potential resources available to fund new builds.

Table 6: Summary of Proposed Housing Investment Expenditure and Financing 2015–2019

Resources	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	Total £000's
Housing Investment Expenditure	**29,268**	**24,530**	**24,963**	**26,544**	**105,305**
Current Stock Need	**18,092**	**19,066**	**19,335**	**20,748**	**77,241**
Potential New Build (including fees)	**11,176**	**5,464**	**5,628**	**5,796**	**28,064**
HRA Investment Financing					
Major Repairs Reserve/Depreciation	13,982	14,661	14,870	14,931	58,444
Revenue Contributions (HRA)	8,236	7,359	7,972	9,481	33,048
Government Grants	1,121	0	0	0	1,121
Capital Receipts (RTB & Other Land Sales)	4,429	1,439	1,050	1,061	7,979
House-building Fund	1,500	1,071	1,071	1,071	4,713
Total Resources	**29,268**	**24,530**	**24,963**	**26,544**	**105,305**

4.2 Draft Prudential Indicators

The Local Government Act 2003 requires Councils to comply with the "CIPFA Prudential Code for Capital Finance in Local Authorities." The Prudential Code Requires authorities to develop a set of Prudential Indicators for capital as laid out in the Code. In addition to the indicators laid down in the Code, local authorities are free to set up their own local indicators, as they consider appropriate.

The following part of the report sets down the draft Prudential Indicators as calculated and proposed for the Housing Revenue Account for North Tyneside Council for 2015-2018.

4.3 Indicators of Affordability

Prudential Indicators (PIs) 1 to 4 are key indicators of affordability.

4.4 Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

This indicator shows the estimate of the ratio of financing costs to net revenue stream for the current and future years, that is the proportion of the budget for Housing that is spent on the financing of capital spend. The estimates of financing costs include the base Investment Plan, and the implications of the additional debt taken on from 2012/13 in relation to the self-financing settlement. It also includes the estimated financing costs of the North Tyneside Living PFI project (formerly known as the Quality Homes for Older People project).

The actual figures for 2013/14 are also set out in Table 7 below:

Table 7: Ratio of Financing Costs to Net Revenue Stream

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Est.	Est.	Est.	Est.
HRA	29.82%	22.36%	23.66%	27.48%	29.46%

The above indicator shows costs for all borrowing, both supported and unsupported. To enhance the information available for decision-making we have also provided a local indicator to show the proportion of the budget that is spent on unsupported borrowing. This is shown in Table 8 below:

Table 8: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	**Est.**	**Est.**	**Est.**	**Est.**
HRA	10.11%	3.58%	4.75%	6.07%	7.17%

Debt financing costs related to past and current capital programmes have been estimated in accordance with proper practices. Actual costs will depend on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Any reprogramming in the investment Plan, whether planned or unplanned, may delay the impacts of debt financing costs to future years.

4.5 Impact on Council Tax and Housing Rents (PIs 3 and 4)

This prudential indicator reflects the estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken. These figures reflect the amount of capital funded by the HRA arising from the proposed Investment Plan.

Table 9: Estimates of incremental impact of new capital investment decisions on average weekly housing rents

	HRA
2015/16	£2.23
2016/17	(£0.57)
2017/18	£1.14

These figures are notional and in practice the incremental costs of borrowing for the HRA capital investment programme are incorporated into the calculations for the HRA budget build up along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

4.6 Capital Expenditure (PIs 6 and 7)

This indicator requires reasonable estimates of the total capital expenditure to be incurred during the forthcoming financial year and at least the following two financial years. The HRA elements of Investment Plan for 2015-2019 are included in Appendix B and the figures below are based on that report.

Table 10: Capital Expenditure

	2015/16	2016/17	2017/18	2018/19
	Estimate £000's	Estimate £000's	Estimate £000's	Estimate £000's
HRA	29,268	24,530	24,963	26,544

These estimates mirror those shown in Table 6 of this report.

4.7 HRA Capital Financing Requirement (CFR) (PIs 8 and 9) and CFR Debt Limit

The CFR can be understood as the Authority's underlying need to borrow money long term for a capital purpose. The underlying need is the expenditure remaining to be financed after allowing for capital funding from capital receipts, grants, third party contributions and revenue contributions. It reflects the cumulative amount of borrowing required for capital purposes less the annual Minimum Revenue Provision (MRP).

In accordance with best professional practice the Authority does not associate borrowing with particular items or types of expenditure. The Authority has a number of daily cash flows, both positive and negative, and manages its Treasury position in terms of its borrowing and investments in accordance with the approved Treasury Management Strategy. In day to day cash management no distinction can be made between revenue cash and capital cash. Over the long term external borrowing may only be incurred for capital purposes.

The Authority is required to make reasonable estimates of the total CFR at the end of the forthcoming financial year and, as a minimum, the following two years. Under the self-financing regime introduced by powers enacted under the Localism Act 2011, the Authority is limited to a maximum HRA CFR. This means the cumulative HRA borrowing must not exceed this limit on the 31 March of the relevant financial years. These figures assume that the CFR limit will be flexed by Government, to allow for the implications of the North Tyneside Living PFI project.

The CFR has been calculated in line with the methodology required by the relevant statutory instrument and the guidance to the Prudential Code. It incorporates the actual and forecast borrowing impacts of the Authority's previous, current and future capital projects, current and future PFI programmes and current Finance Leases.

Table 11: HRA Capital Financing Requirement Limit (PIs 8 and 9)

	2013/14 Actual £000's	2014/15 Est. £000's	2015/16 Est. £000's	2016/17 Est. £000's	2017/18 Est. £000's
HRA	285,827	312,972	348,917	361,874	356,532
Total	**285,827**	**312,972**	**348,917**	**361,874**	**356,532**

The actual HRA CFR as at 31 March 2012 when self-financing was introduced was £290.824m (excluding PFI and leases).

The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 12 below:

Table 12: Capital Financing Requirement for Unsupported Borrowing (PIs 8 and 9)

	2013/14 Actual £000's	2014/15 Est. £000's	2015/16 Est. £000's	2016/17 Est. £000's	2017/18 Est. £000's
HRA	39,693	38,943	37,323	34,563	30,673
Total	**39,693**	**38,943**	**37,323**	**34,563**	**30,673**

Cabinet should note that these Prudential Indicators are specific to the Housing Revenue Account (HRA). However, the full Prudential Indicators for the Authority as a whole will be agreed by full Council as part of the 2015-2018 Financial Planning and Budget process.

Section 5
Response to the Overview, Scrutiny and Policy Committee recommendations

5.1 Information Document

This section of the document sets out the process for Cabinet to respond to any recommendations made by the Overview, Scrutiny and Policy Committee following their meeting on the 5 January 2015.

Cabinet must formally respond to any recommendations made by the Overview, Scrutiny and Policy Committee in considering its final budget proposals. It is therefore proposed that Cabinet consider any recommendations in relation to the Housing Revenue Account (HRA) at this meeting of 15 January 2015 prior to approving this report.

The meeting of the Overview, Scrutiny and Policy Committee on the 5 January 2015 considered a report by the Budget sub-group in relation to the initial budget proposals for 2015/16. In relation to the Housing Revenue Account, the Budget sub-group had considered all the business cases that detailed:

- Rent and Service Charge Income;
- Capital Financing and Debt Management;
- Service Efficiencies and Improvement;
- North Tyneside Living PFI Project, and
- Contingencies.

The Overview, Scrutiny and Policy Committee noted that the Budget sub-group had concluded that they understood that to ensure the Council was in a position to deliver the priorities of its residents/business and the Our North Tyneside Plan, it was critical that it becomes even more commercially focused and business like in these difficult times. It was noted that the Group was provided with comprehensive information and that to ensure the publics expectations are met it was important to be clear to what services can and cannot be provided.

The Group also understood the budget proposals were ambitious and were encouraged that the delivery of the 2015/16 budget would ensure that service delivery would improve for those most in need and further develop cross departmental working.

Section 6
Housing Revenue Account Statement to Cabinet by the Chief Finance Officer

6.1 Background

The Local Government Act 2003 imposes duties on local authorities in relation to budget setting. The Act requires that when an authority is deciding its annual budget Members and officers must take into account a report from the Chief Finance Officer on the robustness of the budget and the adequacy of the Authority's financial reserves.

Government has a back up power to impose a minimum level of reserves on any authority that it considers is making inadequate provisions.

In making the statement the Chief Finance Officer necessarily places reliance on information provided to them by other officers of the Authority as part of the Financial Planning and Budget process. Due cognisance to CIPFA's guidance in relation to the adequacy of reserves and balances will also be taken into account.

This statement is made specifically in reference to the Housing Revenue Account. As at this meeting Cabinet is receiving and approving the final proposals for the HRA budget and business plan 2015/16, it is considered appropriate to include a statement to Cabinet by the Chief Finance Officer in this report specifically relating to the Housing Revenue Account.

6.2 Housing Revenue Account Statement

Robustness of Estimates

In assessing the robustness of estimates, the Chief Finance Officer has considered the following issues:

- The general financial standing of the HRA;
- The underlying budget assumptions from the HRA financial strategy;
- Future budget pressures and growth proposals, ;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Council's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2013/14 Annual Financial Report, presented to full Council on 25 September 2014;

- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the HRA; and,

- The implications of Government's Spending Review and the Local Government Finance Settlement on the HRA Business Plan.

The Chief Finance Officer is satisfied that due attention has been given to the 2015-2019 Housing Revenue Account and associated business plan.

The Cabinet is aware it must keep under review its 30 year Housing Revenue Account Business Plan in the context of its Financial Planning and Budget process and the 'Our North Tyneside' Council Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2015/16 in isolation to future years' needs and pressures. Each year's Housing Revenue Account budget must continue to be considered within the context of the 30 year Business Plan, the four-year Housing Investment Plan and delivery of the 2014-2018 'Our North Tyneside' Council Plan.

To ensure that the HRA continues to keep within its approved budget and the financial integrity of the HRA is maintained, it is essential that budget holder responsibility and accountability continues to be recognised as set down in the Authority's Financial Regulations and in the roles and responsibilities section of the Authority's budget management handbook.

6.3 Adequacy of Financial Reserves

The HRA budget proposals for 2015/16 assume that there will be a drawdown of £0.640m of reserves used to support the 2015/16 HRA budget, with an average assumed rent increase based on the Government's new social rent policy of 2.2%.

The Chief Finance Officer's view is that these decisions are required in order to manage and meet the identified needs of the HRA Business Plan for 2015/16, and to place the HRA in a position to continue to meet the aspirations for a self-financing HRA over the next 30 years. HRA Balances are budgeted to be £2.765m at the end of 2015/16 which is a decrease from an estimated figure of £3.405m at the end of 2014/15. In accordance with the Reserves and Balances Policy, the adequacy of this reserve has been reviewed and it is the Chief Finance Officer's view that the HRA reserve balance should be maintained at at least £2.000m as a minimum over the life of the Business Plan. Any decision to implement a different policy decision in relation to the rent increase and use of reserves will have a potentially damaging impact on the future HRA unless significant compensating savings can be identified.

Guidance on Local Authority Reserves and Balances is given in Accounting Bulletin LAAP (Local Authority Accounting Practice) 77. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short term option",* and so the proposed HRA 2015/16 budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2015/16 HRA budget and associated business plan have been developed so that ongoing revenue expenditure is broadly aligned to annual income with no long term reliance on reserves.