2016-2019 Financial Planning and Budget Process:

Cabinet's Final Budget Proposals for the Housing Revenue Account (HRA) Business Plan and Budget for 2016-2019

14 January 2016

Section 1
The 2016-19 Financial Planning and Budget Process

1.1 Housing Revenue Account (HRA) - Background

This meeting of Cabinet is being asked to approve the Housing Revenue Account (HRA) Business Plan and Budget for 2016/17, including the housing rent, garage rent and service charge changes and the HRA elements of the Investment Plan.

North Tyneside Council is responsible for the management of around 15,000 council houses, the funding for which is required by law to be kept entirely separate from the rest of the Authority's finances within what is known as the HRA. The council tax payer cannot subsidise those living in social housing and the rents and service charges paid by the tenants cannot be used to fund unrelated council services.

Under the Local Government and Housing Act 1989, it is also illegal for an authority to budget for a deficit in its HRA.

Section 1 of this Annex sets out clearly the overall vision of the Council Plan, and policy content within which the HRA financial plan and budget proposals are set.

The financial challenges the HRA faces in delivering the desired outcomes from the Council Plan are no less challenging than those of the General Fund.

As part of preparing the HRA financial plan for 2016/17 to 2018/19, which includes a 30-year HRA Business Plan and the associated Capital Investment Plan, the potential impact of two pieces of Government legislation that are currently progressing through Parliament (the Welfare Reform and Work Bill and the Housing and Planning Bill) are acknowledged.

Both of these have significant implications for the future resourcing of the HRA Business Plan at a time when we are also facing the continued roll-out of Universal Credit, and a number of new changes proposed by the above draft legislation.

This report also sets out the financial and service pressures on the HRA identified through the financial planning process and the draft proposals to balance the plan.

1.2 Key Headlines and Objectives for the Housing Service

The over-riding objectives for the housing service are, as far as possible within financial constraints, to:-

1. Ensure the application of the principles of the Target Operating Model;
2. Continue to invest in the existing stock to maintain the Decent Homes Standard;

3. Maintain and develop effective engagement with tenants;
4. Work with Private Landlords to refurbish stock where appropriate;
5. Undertake environmental improvements to estates to ensure that they are clean and safe;
6. Support the delivery of Affordable Homes across the borough.

The key headlines for the HRA budget for 2016/17 are as follows:-

HRA Revenue planning assumptions

The key headlines for the HRA budget for 2016/17 are as follows:-

1. Implement proposed Government rent reduction of 1% for 2016/17 (and the following 3 years);
2. Freeze service charges for 2016/17;
3. Increase garage rents by 2% for 2016/17;
4. Sustain working HRA balances at circa £2.5m; and
5. PFI properties have a rent reduction in line with the 1% reduction for 2016/17 (and the following 3 years);

HRA Capital Investment Plan – assumptions

1. Overall Housing Investment Plan spend of £92.3m over the next 4 years and £1.179 billion over the next 30 years;
2. Spend for 2016/17 of £24.859m including £5.000m for the continuation of a new build council house programme. Some of this funding is reprogramming from 2015/16;
3. Total current estimated spend allocated for new build over 30 years totalling £113m (including client fees).

Cabinet will be pleased to note that the plan includes provision for the continuation of the new build programme for the duration of the 30 year Business Plan.

The current programme of new build during 2015/16 saw the completion of 32 new affordable homes at Blandford Road delivered by Galliford Try. These homes were funded in part by Social Housing Grant under the Government's Affordable Homes Programme. 41 new houses in Wallsend Town Centre are being built by our Joint Venture partner Kier North Tyneside, on the site of the former Alexandra Street Homeless Unit and Wallsend Police Station. Both of these schemes reflect Cabinet's desire to see an extensive programme of new build within the Borough, as part of an ambitious plan for up to 3,000 new affordable homes over a ten year period. The 30 year HRA Business Plan developed as part of the 2016/17 budget process identifies around £25m of additional resource available over the next 10 years within the HRA to support council house new build and £113m over the next 30 years.

1.3 Overall Budget Context

The Authority has continued to develop its 30-year plan to ensure the long-term viability of the HRA and as such a long-term view of the HRA financial position is taken each year. 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.

1.4 Proposals for Legislative Change

The Chancellor announced in his summer budget statement of 8 July 2015, his intention to require authorities to reduce social rents by 1% a year for the next 4 years. This proposal was confirmed with the release in July 2015 of the Welfare Reform and Work Bill and the Housing and Planning Bill 2015. There are a number of changes that will impact on all social landlords including stock retaining authorities.

1.5 Welfare Reform and Work Bill

The Bill is complex but contains a number of clauses with the potential to impact on the HRA, relating mainly to:

- Welfare Benefits;
- Social Housing Rents.

Welfare Reform
The main measures are:

- Working-age benefits, including tax credits and Local Housing Allowance, will be frozen for four years from 2016/17;
- The household benefit cap will be reduced to £20,000 outside London;
- Support through Child Tax Credit will be limited to two children for children born from April 2017;
- Those aged 18 to 21 on Universal Credit will have to apply for an apprenticeship or traineeship, gain work-based skills, or go on a work placement six months after the start of their claim;
- There will be reductions to tax credits for people on low incomes.

All of these measures have the ability to impact on different groups of tenants, but the detail required to fully assess the impact will only become clearer as they are implemented through new or amended regulations. We will continue to advise Cabinet of the impact of these changes as the details emerge.

Social Housing Rents
From April 2016 the Government is proposing to require authorities to reduce rents by 1% in real terms for the next 4 years.

The current proposed change reduces rental income by an estimated £26.9m over the next 4 years, and takes an estimated £493m out of the 30 year Business Plan. It is a change that will significantly impact on the Authority's ability to manage and maintain properties to a high standard and to develop new properties. The impact of these changes and any mitigating options are discussed in the Strategic Planning section of the report below.

1.6 Housing and Planning Bill

The bill was published in October 2015 and contains details of the following key proposals:

- Extension of Right to Buy (RTB) to housing association tenants;
- The sale of "vacant" high value council homes;
- An obligation for tenants on higher incomes to pay higher rents.

The Bill gives ministers the power to implement the detailed policies via subsequent regulation; therefore much of the detail has still to be determined.

However some of the issues are already starting to become clearer:-

- **Right To Buy (RTB)** – Housing associations have now signed a voluntary deal with the Government, which maintains their independent status and which, they hope, will guarantee them "full compensation" at market value for the properties they have to sell to tenants;
- **Sale of High Value Council Assets (HVA)** – There will be a duty placed on authorities to consider selling high value vacant social housing. The details are still being worked on, but it is unlikely that the Authority will be required to hand over actual sales proceeds;
- **Pay to Stay** – This introduces a requirement for authorities to charge tenant households earning over £30,000 a year an increased rent closer to market rent and to give the additional money to the Treasury. This will require the creation of a legal obligation on tenants to declare their income and/or powers for authorities to receive information from HM Revenues and Customs. Although housing associations will also be asked to apply the "pay to stay" legislation they will be able to keep the money to fund more affordable housing, and moreover the policy will be voluntary for them as opposed to councils. The additional administrative burden on authorities as a result of this policy could be significant as we will need to maintain earnings data on tenants and ensure we have current data on potential market rents for all properties.

Government intends to introduce these policies to be implemented from April 2017 in the case of Pay to Stay, and possibly part way through 2016/17 for the sale of HVA. Further reports will be brought to Cabinet when appropriate. At this stage many of the potential implications on the HRA Business Plan of the above Bills are unknown and hence have not been included in the proposed figures presented within these budget proposals. Given the scale and nature of the national policy changes being proposed for the HRA, we will need to ensure that we re-model and revise our plans as details become clearer for this and any other future proposals.

Section 2
Strategic Planning

2.1 HRA Rent

As described in section 1.5, Government is proposing a significant change in rent policy, and, for at least the next 4 years from April 2016, proposes to remove entirely the link between rent and inflation, requiring authorities and housing associations to reduce rents by 1% per annum. This leads to an estimated “gap” in HRA funding of £493m over the next 30 years. CPI as at September 2015, which would otherwise have been the base point for the rent increase, was -0.1%. Under the previous CPI + 1% policy this would have meant an average increase of 0.9% against an assumed 3% average yearly increase, which would have removed £56m from the plan as a result of that single year change.

In terms of longer-term planning over the next 30 years the Government has indicated that the policy after 4 years will return to CPI + 1% and our modelling assumes this. However there are some factors that Cabinet should be aware of:

1) The Authority has been given indications that it is not intended to break the link where properties become vacant and we move the rent to formula (target) rent, so although the target rent will also be subject to the 1% reduction we can continue to move rents to “target” as agreed by Cabinet last year;

2) PFI properties can be exempted from the rent reduction at Cabinet’s discretion as they are tied to a Government-funded scheme. Cabinet therefore has discretion if it wishes to treat this group of tenants differently from all others. For the purposes of the current plan it has been assumed that rents on PFI properties will also be subject to the reduction. The financial impact of this on the Authority is dependant on future actual inflationary trends but, as an indication, if rent would have increased by CPI + 1% (and CPI was assumed to be 2% per annum over 30 years) the financial effect could be up to £15m over the 30 years of the business plan;

3) 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;

4) As Service Charges are supposed to be tied to actual costs they are also exempt from the reduction. For the purposes of the current plan it has been assumed that these are frozen for the next 4 years, excluding any potential new charges. This assumption is based on indications that CPI is likely to remain close to zero over this time period. Service charges on affordable rent properties are not exempt, as the 80% of market rent calculation includes any service charges;

5) Garage rents are linked purely to an assessment of demand for the asset with no link to rent policy, hence the plan proposes the long-term government CPI target of 2% increases per annum as being reasonable. The income is impacted by 4 main issues:

   - level of voids experienced across the stock;
   - availability across popular locations;
   - condition of garages and repair implications;
   - level of disabled relief given for a service choice that is not deemed to be allowable for benefit calculations.

6) The plan assumes continuation of the policy agreed by Cabinet for the 2014/15 Financial Planning and Budget process to protect existing North Tyneside Living tenants from excessive rent increases due to the works undertaken within the PFI schemes. All new tenancies would commence at the newly calculated rents. It is estimated that this protection will cost in the region of £0.170m in 2016/17 after which point it will start to steadily reduce.

In addition to the issues above we continue to monitor the implications of any changes arising from benefit changes and the continued roll-out of Universal Credit (UC). It is not anticipated that the UC scheme will be fully rolled-out across all areas of the country until 2020/21. If there are any significant changes to the timetable for implementation, Cabinet will be asked to consider revised proposals.

2.2 Asset Management Strategy (AMS)

The over-riding future asset management objective is to ensure that the housing stock is maintained at the Decent Homes Standard (DHS) as a minimum. As part of the AMS approved by Full Council under the "Better Homes – Better Lives" 2010-2015 report in September 2010 a new stock condition survey was undertaken to help inform the Investment Plan. During 2015/16 the AMS was refreshed to help ensure that the future needs of the stock are fully identified. The results of the refresh and the updated stock condition survey were fed into the Keystone Asset Management system, and, along with the key priorities of our tenants obtained from the Tenant panels, this data contributed to the updated Investment Plan.

Once the Business Plan was rebased for stock numbers and rolled forward a year and the rent assumptions were updated for the government proposals, the identified overall "gap" in the plan stood at £425m over 30 years. The Authority cannot allow its revenue plan to go into deficit. If the gap was to be purely filled from a reduction in Capital spend the likely impact would be as follows:

- Reduction in Funds available for Decent Homes programme - £228m;
- Reduction in Funds available for New Build programme - £197m;

- **Total current "gap" identified in HRA Business Plan -£425m.**

<u>Decent Homes Investment Plan Programme</u>
The Authority needs to consider how it would close the £228m "gap" in the Investment Plan for maintaining the existing stock. A fundamental review of all the

elements contained in the Housing Investment Plan has been undertaken in consultation with the Cabinet Member for Housing and Transport to consider options for reducing costs or doing things differently within the overall plan. This has led to a suite of options which include:

Table 1: Housing Investment Plan – Options to Consider

Element	**Description of Change**	**Variance (£m)**	**Overall Reduction (£m)**
Review of property numbers & element costs	Re-base number of properties & review all cost elements using Final Account figures / Kier rates etc		(117)
External redecoration	Change cycle from 7 years to 8 years	36 to 32	(4)
Roof covering replacements	Change cycle from 60 years to 70 years	156 to 134	(22)
Building Structure (Brickwork)	Change cycle from 60 years to 70 years	101 to 87	(14)
Boundary Fencing / Walls	Additional cost added to improve scope of works	16 to 29	13
Internal Work Elements	Removal of nice to haves, Non-DHS work eg plasterwork, doors, architraves, skirting etc reduced & pushed back from 2023 to 2031	89 to 28	(61)
Insulation	Extended lifecycle of replacement insulation 2031 instead of 2027	27 to 15	(12)
Parking	Reduce money in plan to deal with hot spot parking areas and provision of off-street parking	39 to 28	(11)
TOTAL			**(228)**

As can be seen in the table above, the Authority has considered the above options to amend the Investment Plan programme to meet the financial challenge whilst still meeting the fundamental needs of the existing stock. Work continues to confirm the viability of these options and their profiling in the 30 year Business Plan. It is not envisaged that the Decent Homes programme would be adversely impacted in the first 3 years of the plan covered by this budget report, as the reduction in proposed funding for Decent Homes does not start to reduce until 2019/20. There would however, potentially be implications for future revenue maintenance costs, as delaying or removing planned works could lead to increased repair costs as stock ages.

The Investment Plan needs for existing stock over the 3 years of this plan have been identified at £71.310m with £1.067 billion needed over the next 30 years.

<u>2016/17 Investment Plan Programme (excluding new build) assumptions</u>

Based on the changes discussed above the proposed Investment Plan Programme for 2016/17 totals £19.859m including re-programming. This compares to actual spend of £19.856m in 2014/15 and forecast spend of £18.940m in 2015/16, all excluding new build. Further details on the Housing element of the Investment Plan and capital financing arrangements are included in Section 4.0 of this report.

2.3 New Build

If this report is agreed an estimated £11.4m can be released for spend on new build homes in the next 3 years with £5.000m earmarked for 2016/17, and up to £113m could be released to build homes over the next 30 years.

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 to maintain Decent Homes. We continue to review Authority-owned land stocks, and, as agreed by Cabinet, the plan assumes that part of the Authority's share of Right to Buy (RTB) receipts assumed under self-financing will be set aside to repay debt to help maintain the viability of the HRA business plan.

2.4 Right to Buy Sales

RTB sales in 2014/15 at 100 were down on the previous year (122) as was the average sale price of £0.039m which, compared to average valuations of £0.083m, was also down due to increased discounts, and the mix of property types sold. Under the RTB agreement signed with Government, we have to use any additional "retained" receipt within 3 years as a 30% new build contribution. The reduction in sales and increased assumed sales under self-financing has seen this requirement drop substantially. Hence as a result of sales in 2014/15 we have to spend £0.591m on new build within 3 years, down from £3.019m within 3 years required because of 122 sales in 2013/14. There have been 48 sales to the end of September (Quarter 2) in 2015/16 (40 at same point last year) with a total receipt of £2.001m but with no additional "retained" receipt to-date that would require the Authority to spend additional funds on providing new homes. The trend in the numbers of RTB sales has been reflected in the revised Business Plan profile for stock numbers, with 100 assumed for 2016/17. These trends may of course be impacted to some degree by the proposed legislative changes currently going through Parliament.

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

Cabinet will be aware of the implications of self-financing in terms of the amount of additional debt that the Authority took on from 1 April 2012.The debt settlement figure for North Tyneside was £128.193m, with an overall HRA Capital Financing Requirement (CFR) of £290.824m.

It was agreed by Cabinet and full Council that the HRA should effectively have a separate debt pool from the General Fund. There are three elements to this pool:

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 very advantageous. The

average interest rate on these loans is 3.49%, equating to annual interest of £4.477m, 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. The funds in this reserve are being used to help fund the programme of HRA new build and conversions approved by Cabinet to meet the Authority's 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 a loan reaches maturity, there is a separate consideration for the General Fund and HRA as to whether the loan is re-financed, either long-term or short-term, or repaid using debt set aside. The HRA strategy agreed by Cabinet was that existing loans should be repaid where prudent and affordable. Opportunities to undertake short-term borrowing at current low rates when loans reach maturity have 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 2016/17 estimated interest payments due on existing debt will total £5.316m, a reduction of £0.681m on the current year's budgeted charges, with a debt set aside of £2.760m. The debt set aside was reduced due to additional resources being used to fund new build and this is being built up again over the next few years of the plan as resources allow;

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 2016/17 there will be re-financing of £13.342m of long-term loans, once assumed debt repayments have been accounted for, and temporary borrowing of £20.488m with estimated interest charges of £1.096m in 2016/17.

A truly separate portfolio of HRA debt has been created, which has differing strategic considerations to the General Fund. The portfolio is managed as part of the Council's overall Treasury Management Strategy. For 2016/17 interest payments are budgeted at £10.888m (2015/16 - £11.132m), with a set aside cost of £2.760m (2015/16 - £1.620m), with total estimated financing payments of £13.570m (2015/16 - £12.682m). The current forecast for 2015/16 is for total costs of £12.456m, reflecting increased savings due to 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. The HRA has taken on significant debt, and although close control of costs realises benefits to the HRA, the future challenges are significant.

It is estimated that actual debt will be £273.739m by 31 March 2017. The Authority closely monitors the Treasury Management position and the impact on the HRA, 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 Appendix D of this report and 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.

2.6 HRA Self-Financing and Depreciation

There has not been any significant change in relation to the position for provision of depreciation within HRA Business Plans. Under self-financing the Department for Communities and Local Government (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 previous reports the Government came up with a 5-years “transitional” solution, where a calculation based on the old Major Repairs Allowance (MRA) from subsidy could be used as a “proxy”, with any revaluations and impairment charges being reversed out of the accounts, whilst the Government worked on a longer-term solution.

It did appear during 2015/16 that the Government might be proposing that the transitional arrangement roll-on indefinitely. However just in the last month it appears that CLG are still working on a solution. 2016/17 is the final year of the original transitional arrangements so the Government proposals need to be agreed very soon to enable authorities to make appropriate plans.

Using the proxy MRA figure for 2016/17 means that the transfer to the Major Repairs Reserve that will be required in 2016/17 will increase from £14.226m to approximately £15.170m. 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.

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

The NTL Project means that the Authority should see its sheltered accommodation brought up to the Decent Homes Standard by 2017. Significant progress is being made on delivery of the construction and refurbishment stages of the NTL project in conjunction with our Private Finance Initiative (PFI) partner (S4NT) (Solutions 4 North Tyneside). At the time of writing this report a total of nine schemes have been completed:

- 5 New Build schemes including bungalows at Clifton Walk;
- 4 Refurbishment schemes,

In addition, a further 13 sites are now live:

- 6 New Build;
- 7 Refurbishment.

This leaves only 4 sites where no works have as yet commenced.

The scheme was awarded £108.634m of Private Finance Initiative (PFI) credits by the Department for Communities and Local Government (CLG) when signed off in

March 2014, which equates to annual PFI credit payments of £7.370m. The project continues to be reviewed for Value for Money by CLG.

The budget proposals included within the Authority's 2016-2019 HRA Plan assume that the Authority will successfully deliver the construction phase of the scheme, and continue the transition to the full and successful operation of the sheltered estate upon completion.

2.8 Major Issues and Risks to the HRA

The Authority continues to take a cross-authority approach in co-ordinating a reasoned approach to risks. 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. The implications of welfare reform will continue to be monitored closely to enable sensitivities to be run on the HRA. These risks were set out in Table 2 section 2.3 of Cabinet's 7 December 2015 report in terms of the overall Financial Risk Assessment prepared for the Authority, with the main risk for the HRA shown in Table 2 below.

Table 2: Key Financial Risk and mitigating actions

Potential Risk	**Initial Response**
There is a risk that the Council may be unable to sustain the existing level of rental income which will impact on our ability to deliver the 30 year HRA Business Plan. The government plans to reduce the social housing rents by 1% per annum for 4 years, which will significantly impact on our income and our ability to deliver our existing 30 year HRA business plan. This has the potential financial impact of creating a £425m "gap" in funding levels over previous plans. Welfare Reform may also impact on rent collection levels as the amount of money to be collected directly from tenants will increase significantly under Universal Credit.	A financial inclusion strategy is being developed which will set out how the Council and its partners will support its residents to better manage their finances and maximise their income. In addition, a review of the way tenants pay their rents will take place, resulting in easier payment methods e.g. the introduction of more direct debit payment dates, which will help ensure that more rents can be collected. The Council will also continually review the cost and quantity of work within the 30 year Investment Plan to help mitigate the impact of changes.

Section 3
Elected Mayor and Cabinet's Proposals for the Housing Revenue Account Business Plan and Budget for 2016-2019

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 Programme; and
(c) Reserves and Contingency Proposals.

3.2 Pressures and Growth

Table 3 below summarises the major unavoidable pressures and variations faced by the HRA currently built into the budget. These are shown below:-

Table 3: 2016-2019 Pressures and Growth

Pressures and Growth	2016/17 £000's	2017/18 £000's	2018/19 £000's
a) Rent Reduction & Rebasing – 1% per annum;	1,102	347	929
b) Service Charge Income – Rebasing;	25	25	25
c) Transitional Protection re North Tyneside Living rents;	60	(20)	(25)
d) Debt set aside – Minimum Revenue Provision (MRP);	1,140	1,130	(2,275)
e) Major Repairs Allowance (MRA) / Depreciation;	522	478	492
f) Housing Investment Plan - Revenue Effects;	(2,327)	(1,316)	687
g) North Tyneside Living – Unitary Charge Payments & Contributions to/from Reserves;	40	74	68
h) HRA New Debt / Debt Management Expenditure (DME) / Premiums Discounts;	429	436	330
i) Pension Fund Deficit Contributions;	32	33	35
j) Bad Debt Provision	119	23	23
TOTAL Pressures and Growth	**1,142**	**1,210**	**289**

3.3 Creating a Brighter Future Programme

As part of the 2016-2019 Financial Planning and Budget process, proposals have been made for additional income, grant and efficiency opportunities. These are summarised in Table 4 below and include:

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

2. Rebasing garage rents, garage rent increase and other rental income;

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

4. Savings and efficiencies in relation to repairs budgets;

5. Management Costs – Staff Structure Savings & Efficiencies;

6. Savings from North Tyneside Living Project re project and procurement costs;

7. Removal of Contribution to House-building Fund as part of overall strategy to Balance the Business Plan;

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

Table 4: 2016-2019 Creating a Brighter Future Programme

Creating a Brighter Future Programme		**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**
1)	Income from Rent Increase re-basing & voids to target;	(163)	(132)	(116)
2)	Garage Rents – rebasing, rent increase & Other Income;	11	(9)	(13)
3)	HRA Existing Debt – Interest savings from refinancing & temporary borrowing;	(682)	(534)	(319)
4)	Repairs Stock reduction & VFM savings;	(200)	(64)	(71)
5)	Management Costs – structure & efficiency savings;	(250)	0	0
6)	North Tyneside Living – project procurement & monitoring costs;	2	(48)	(77)
7)	House-building Fund Contribution;	0	(1,071)	0
8)	Council Tax Void Scheme	55	(100)	(50)

TOTAL Creating a Brighter Future Programme	**(1,227)**	**(1,958)**	**(646)**

3.4 HRA Reserves and Contingencies

The proposed draft budget for 2016/17 includes a contribution from reserves of £0.686m. It is proposed to create additional contingency budgets of £0.131m to recognise relevant issues including any increases in inflation and any pay award for 2016/17.

Table 5: 2016–2019 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**
Increase in Contingencies	131	270	212
Contribution to/(from) Balances	(46)	478	145
TOTAL Change in Reserves and Contingencies	**85**	**748**	**357**

3.5 2016-2019 Draft Housing Revenue Account – Movement on Reserves

Table 6 below summarises the draft Housing Revenue Account movement on balances for 2016-2019, after taking account of the information and details included in Sections 3.2 to 3.4 above:

Table 6: 2016–2019 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**
Opening Reserve Balance	(3,601)	(2,915)	(2,707)
Add:			
Original Contributions (to) / from balances	640	686	208
Change in contributions (to) / from Balances	46	(478)	(145)
Predicted Reserve Balance Carried Forward	**(2,915)**	**(2,707)**	**(2,644)**

The budget monitoring position for 2015/16 to 30 November 2015, reported to Cabinet on 11 January 2016, shows projected year-end balances of £3.601m. A net contribution from balances to the HRA of £0.686m is projected in 2016/17 to give a year-end balance of £2.915m as at 31 March 2017. The budget proposals presented here ensure that a minimum of £2.000m is retained in HRA revenue balances each financial year covering the three years of the Authority's 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 7 below summarises the Housing Revenue Account forecast plan for 2016–2019, after taking account of the information and details included in Sections 3.2 to 3.4 above:

Table 7: 2016–2019 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**
2016/17 Base Budget	0	0	0
Add:			
Pressures and Growth	1,142	1,210	289
Creating a Brighter Future Programme	-1,227	-1,958	-646
Reserves and Contingencies	85	748	357
Net Forecast Expenditure Variation	**0**	**0**	**0**

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

Section 4
The Elected Mayor and Cabinet's Proposals for the 2016-2019 Housing Investment Plan

4.1 2016-2019 Housing Investment Plan

The 2016-2019 Housing Investment Plan is included as part of the overall 2016-2019 Investment Plan set out in section 5.0 of the 7 December Cabinet report. The Housing element of the Investment Plan is set out below for completeness.

The over-riding objective for future years for the Housing Investment Plan is to ensure that the existing Housing stock is maintained to at least the Decent Homes Standard, as laid out in the Housing Asset Management Strategy, refreshed as part of the 2015/16 budget process. On top of this, as resources allow, there is the intention of responding to tenant priorities around issues such as fencing and landscaping, and to deliver Decent Homes plus standards.

This Investment Plan also provides for the Authority to continue the programme of new build council housing started in 2013/14 and builds on some of the successful schemes that have already been delivered, mainly with our JV partner Kier, but also with various social housing providers including where appropriate Galliford Try and Gentoo, often to take advantage of various grant funding opportunities to reduce cost and increase Value for Money. Assuming that enough suitable HRA owned land can be identified or acquired, and planning issues addressed, there is the potential for up to £113m worth of new build expenditure over the next 30 years in total, and specifically £5.000m (including Client fees) of new build works in 2016/17.

Full details of the proposed Housing Investment Plan 2016-2019 are attached as Appendix B but Table 8 below shows a summary:

Table 8: Summary of Proposed Housing Investment Expenditure and Financing 2016–2019

Resources	2016/17 £000's	2017/18 £000's	2018/19 £000's	Total £000's
Current Stock Need	19,859	19,335	20,748	59,942
Potential New Build (including fees)	5,000	3,750	2,618	11,368
Housing Investment Expenditure	**24,859**	**23,085**	**23,366**	**71,310**
Financing				
Major Repairs Allowance / Depreciation	14,370	14,848	15,340	44,558
Revenue Contributions (HRA)	5,909	4,593	5,280	15,782
Government Grants	827	0	0	827
Capital Receipts (RTB & Other Land Sales)	132	2,573	2,746	5,451
House-building Fund	3,621	1,071	0	4,692
Total Resources	**24,859**	**23,085**	**23,366**	**71,310**

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 proposed Prudential Indicators for North Tyneside drafted as part of the 7 December 2015 Cabinet report are included as Appendix C to this report. It should be noted that these indicators cover both the General Fund and the HRA, and are draft at this stage until approved by Full Council as part of the overall 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 4 January 2016.

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 the recommendations below in relation to the Housing Revenue Account (HRA) at this meeting of 14 January 2016 prior to approving this report.

The meeting of the Overview, Scrutiny and Policy Committee on the 4 January 2016 considered a report by the Budget sub-group in relation to the initial budget proposals for 2016/17. In relation to the Housing Revenue Account, the Budget sub-group had considered all the business cases that detailed:

- Pressures and growth items;
- Proposals under the Creating a Brighter Future programme;
- Changes in Contingencies.

The view of the group was that there was a need to understand what effects the proposed changes made by Central Government will have on the Housing Revenue Account; how this will affect residents/tenants and the ability for the Authority to ensure that its priorities to tenants are maintained best as possible, taking into account of the reduction in revenue and restriction that will be imposed by the Welfare Reform & Work Bill and Housing & Planning Bill.

The group also felt that there was also a need to ensure residents and tenants are aware of the effects of the universal credit and welfare reforms will have on the future resourcing of the Housing Revenue Account.

Recommendations were made which have an impact on the Housing Revenue Account. These are set out below with Cabinet's response:-

Recommendations	Cabinet's Response
Recommendation 1: **Investment Plan** With the overall forecast for long term borrowing rates to increase over the	 Agreed The Authority continually reviews rates in anticipation of changes and is in a

next few years, consideration should be given to weighing the short term advantage of internal borrowing against the potential long term costs. There is a risk for missing taking loans at long term rates which will be higher in future years.	position to respond when necessary to market movement.
Recommendation 2: **Creating a Brighter Future/Target Operating Models** It recognised that risks could be mitigated by ensuring all systems were in place and working to what is expected. It is critical that risk assessments are undertaken prior to implementing any staffing changes.	Agreed. An assessment of risk is carried out by senior management as part of any restructure proposal
Recommendation 4: **Housing Revenue Account** There is need to be aware of the settlement from Government when the Authority receives it and any further proposals that may be made upon receipt of the settlement	Agreed.
Recommendation 5: **Housing Revenue Account** Scrutiny understood that one of the biggest challenges is the collection of rent and arrears. The Authority should strive to ensure that all data systems are in place to support this and to help tenants to pay their rents with encouragement to set up direct debits	Agreed. The authority is investigating multiple payment dates for tenant direct debits. The authority is also promoting the use of direct debit across all appropriate income streams.
Recommendation 6: **Reserves and Balances** Scrutiny believes it would be beneficial that the level of reserves held by North Tyneside should be transparent to its citizens. Therefore this should be highlighted in future engagement.	Agreed This information is published but consideration will be given to further ways of making the HRA position clear to North Tyneside citizens.

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 and Council Tax level, 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 her 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 2016/17, 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 Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2014/15 Statement of Accounts, presented to full Council on 24 September 2015;

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

- The implications of the Government's National Summer Budget of 8 July 2015 and the Government announcements of 21 July 2015 which set out the date of the Spending Review of 25 November 2015 and that the Chief Secretary to the Treasury would write to government departments asking them to draw up plans to deliver the remaining required fiscal consolidation of £20 billion required by 2019/20;

- The outcome of the Spending Review and Autumn Statement 2015 of 25 November 2015 and the implications for the HRA;

The Chief Finance Officer is satisfied that due attention has been given to the 2016-2019 Financial Planning and Budget process as it relates to the 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 2016/17 in isolation to future years' needs and pressures. Each year's Housing Revenue Account budget must continue to be considered within the context of both the three-year Financial Plan and the 30 year business plan, along with the 3 year Investment Plan and delivery of the 2015-18 "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 2016/17 HRA budget proposals assume that there will be a drawdown of £0.686m of reserves to support the 2016/17 HRA budget, based on an average assumed rent reduction based on the Government's new rent policy as proposed in the Housing and Planning Bill.

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 2016/17, 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 £2.915m at the end of 2016/17 which is a decrease from an estimated £3.601m at the end of 2015/16. 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 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 2016/17 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 2016/17 HRA budget and associated business plan has been developed so that ongoing revenue expenditure is broadly aligned to annual income with no long term reliance on reserves.