ANNEX 1

2017-2020 Financial Planning and Budget Process:

Cabinet's Final Budget Proposals for the Housing Revenue Account (HRA) Business Plan and Budget for 2017-20

16 January 2017

North Tyneside Council

1.0 The 2017-20 Financial Planning and Budget Process

1.1 Housing Revenue Account - Introduction

This meeting of Cabinet is being asked to approve the Housing Revenue Account (HRA) Business Plan and Budget for the financial year 2017/18, including the housing rent, garage rent and service charge changes, and the HRA elements of the Investment Plan. In addition we have developed indicative plans for the next 2 years in line with the planning process for the General Fund, as well as a 30-year balanced HRA Business Plan in line with the requirements of self-financing. This is the basis on which we have sought the views of residents, tenants and partners on these plans.

North Tyneside Council is responsible for the management of just under 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. . Council Housing Rents and Service charges form the majority of income to the HRA and this income is then used to fund the management and maintenance of Housing stock, along with managing debt and funding Capital Investment in the stock. The council tax payer cannot subsidise those living in social housing and the rents and service charges paid 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 1.0 of this Annex sets out clearly the overall vision of the Council Plan, and the policy context within which the HRA financial plan and budget proposals are set. As stated in previous reports the financial challenges the HRA now faces to deliver the desired outcomes within the Council Plan, are just as challenging as those for the General Fund.

As first discussed in last year's HRA Budget report in preparing the HRA financial plan for 2017/18 to 2019/20, including a 30-year HRA Business Plan and the associated Capital Investment Plan, the impact of two pieces of Government legislation that have now passed into law i.e. the Housing and Planning Act 2016 & the Welfare Reform and Work Act 2016, have both loomed large in our planning. Both of these potentially have significant implications for the future of the HRA and the continued viability of the Business Plan, particularly when considered alongside the continued roll-out of Universal Credit, and a whole raft of new changes and responsibilities proposed by the above legislation. This report provides an update as far as possible on the progress around implementation of the proposals contained in the legislation.

In April 2012 self-financing for HRA council housing finance was introduced with the intention to localise responsibility for council housing. The initial implications of these reforms looked very promising for the future of the HRA, with additional resources identified in the 30-year Business Plan, recognising under investment in terms of Capital resources being used to improve the existing stock. Efforts around being able to out-perform the assumptions in the self-financing model, even saw the Authority placed in a position to begin the first programme of new build housing seen in the Borough for over 25 years. However, there have already been a number of policy changes e.g. around rent, and the Right to Buy (RTB) initiative that have eroded the resources initially identified, culminating in the £425m “gap” in the HRA Business Plan which needed to be plugged as part of the 2016/17 budget process.

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

1.2 Our North Tyneside Plan

The Our North Tyneside Plan 2016-2019 (Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget proposals are set both for the Housing Revenue Account and the General Fund.

This vision and policy context reflect the priorities of the Elected Mayor and Cabinet and have been developed in partnership through the North Tyneside Strategic Partnership which includes all of the organisations and sectors who work together with the Authority to deliver an improved future for the Borough and its residents.

By listening to our residents, businesses and visitors, the Plan provides a clear framework for the Authority to plan its use of resources. It provides the context for all financial decisions and the operational delivery of services both at Borough level but also increasingly as we work alongside other local authorities across the region, statutory partners and with business through the North East Local Enterprise Partnership.

The Our North Tyneside Plan has three key themes – Our People, Our Places and Our Economy. These are in line with what our residents and others have told us. For each one there are a set of very clear policy outcomes that we are seeking to deliver as set out below.

Our People will:

- Be listened to, and involved, by responsive, enabling services.
- Be ready for school – giving our children and their families the best start in life.
- Be ready for work and life – with the skills and abilities to achieve their full potential, economic independence and meet the needs of local businesses
- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence.
- Be cared for and safeguarded if they become vulnerable.

Our Places will:

- Be great places to live, and attract others to visit or work here.
- Offer a good choice of quality housing appropriate to need, including affordable homes.
- Provide a clean, green, healthy, attractive and safe environment.
- Have an effective transport and physical infrastructure - including our roads, cycle ways, pavements, street lighting, drainage and public transport.

Our Economy will:

- Grow by building on our strengths, including our existing world class companies, and small and growing enterprises.
- Have the right skills and conditions to support investment, and create and sustain new good quality jobs and apprenticeships for working age people.

1.3 Key Objectives and headline assumptions 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 2017/18 are as follows:-

1. Continue implementation of Government policy to reduce rent by 1% for 2017/18 (2nd of 4 years) as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI;
2. Freeze service charges for 2017/18 (except where new services are being introduced or re-procured to reflect actual costs);
3. A review of charges for guest rooms and commercial space (e.g. hairdresser facilities) within sheltered schemes
4. Increase garage rent by 2% for 2017/18;
5. Sustain working HRA balances at £2.5m or more.

<u>HRA Capital Investment Plan – assumptions</u>

1. Overall Housing Investment Plan spend of £72.983m over the next 3 years;
2. Spend for 2017/18 of £26.049m including £6.446m for the continuation of a new build / conversion / acquisition council house programme. Some of this funding (£2.487m) is projected reprogramming from 2016/17.
3. Total current estimated spend allocated for new build over 30 years totalling £82.569m (including client fees).

1.4 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.

1.5 Proposals for Legislative Change

Both the Welfare Reform & Work Act 2016 and the Housing & Planning Act 2016 were passed into law in 2016 but much of the legislation has yet to be enacted. Both will be the subject of Government Regulations which will put implementation measures into force, some of which will again have to pass through Parliament for ratification. Attached as Annex A is a briefing note which informs Cabinet of the latest position in relation to the implementation of various parts of the legislation. The major announcements in the Chancellor's Autumn Statement were the scrapping of the need for a compulsory Pay to Stay scheme for Local Authorities, a consultation on the future funding of Supported Accommodation from 2019, and an extended regional pilot of the RTB scheme for Housing Associations(HA), along with the news that Local Authorities will not be required to pay any "levy" under the forced sale of Council Housing (High Value Assets) policy during 2017/18 to pay for a roll-out of the RTB scheme. Cabinet will receive further updates on any future development of these policies, and their potential impact for the HRA.

2.0 Strategic Planning

2.1 Medium Term HRA Position

There are a number of key drivers which underpin the HRA Business Planning Process each of which are discussed briefly below, namely:-

- Rent;
- The Asset Management Strategy and New Build projects as part of Cabinet's Affordable Housing ambitions;
- Right To Buy Sales;
- Treasury Management;
- Self-Financing and Depreciation;
- North Tyneside Living.

2.1.1 Rent

2016/17 saw the start of the Government's 4-year 1% per annum rent reduction policy introduced in the Welfare Reform and Work Act 2016.Government has indicated that the policy after 2019/20 will return to a rent increase based on the Consumer Prices Index (CPI) + 1% and our modelling assumes this. Cabinet should be aware of the following assumptions reflected in the HRA Budget and Financial Plan:

1) It was confirmed that the Authority can continue to move rents to target when properties become void.

2) Cabinet decided not to exclude PFI properties from the 1% rent reduction in 2016/17. Government is removing the discretion and requiring all properties to have the reduction applied from April 2017;

3) A full review of the service charges attached to the North Tyneside Living schemes will be undertaken as the schemes move towards completion to ensure that service charges reflect actual costs;

4) A review of charges for guest rooms and commercial space (e.g. hairdresser facilities) will be undertaken within the North Tyneside Living PFI schemes;

5) Cabinet agreed to exempt service charges from the 1% annual reduction and to freeze them until 2019/20 based on an assumption of low CPI. This plan continues except for furniture packs, where the service is currently being re-procured. It is proposed that these service charges are reviewed to ensure the income collected adequately covers costs. The introduction of Local Housing Allowance caps will make these packs less affordable for our younger tenants who would no longer have these costs covered by benefit. Service charges on affordable rent properties are not exempt as the 80% of market rent calculation includes any service charges;

6) Garage rents are linked purely to an assessment of demand for the asset with no link to rent policy, hence the plan proposes to continue the long-term Government CPI target of 2% increases per annum as being reasonable;

7) It is assumed that the policy agreed by Cabinet previously to protect existing North Tyneside Living tenants from rent increases will continue. All new tenancies commence at the newly calculated rents. It is estimated that this protection will cost in the region of £0.150m in 2017/18 but will steadily reduce from this point.

The implications of any changes arising from benefit changes including Universal Credit (UC) continue to be monitored. 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 kept up-to-date.

2.1.2 Asset Management Strategy (AMS) and New Build Project Funding

The AMS is regularly updated and refreshed to make the stock data current, to fully identify the maintenance needs of the stock over the lives of the assets and to build these into the HRA Investment Plan. Because all of the council non-sheltered stock is now at or above Decent Homes standard, this year’s plan is mainly a refresh of key elements around stock numbers to roll the plan forward. Hence, the Plan identifies £61.242m of works to maintain Decent Homes over the next 3 years (£19.603m for 2017/18), with an estimated £11.741m available for New Build over the same period (£6.446m for 2017/18). Further details on the Housing element of the Investment Plan and the capital financing arrangements are attached as Appendix D to this report.

2.1.3 Right to Buy (RTB) Sales

RTB sales have increased significantly since the start of self-financing, in 2011/12 there were 30 sales, in the 4 years since then the trend has been: 85 in 2012/13, 122 in 2013/14, 100 in 2014/15 and 135 in 2015/16, with a further 63 sold as at September of this year. As part of changes the Government introduced back in 2012/13, the Authority signed an agreement that allows RTB receipts above the levels assumed as part of self-financing to be retained as long as they are used to fund new build homes at a 30% contribution rate within 3 years. This has seen an additional £2.021m of Capital Receipts retained to the end of 2015/16, which has helped deliver £6.737m worth of new build schemes.

The trend in RTB sales is reflected in the 2017/18 Business Plan profile for stock numbers with 150 sales assumed. Legislative change may impact on these projections as the plan moves forward.

2.1.4 Treasury Management Strategy (TMS)

The HRA is an integral part of the TMS for the whole Council, and key decisions were taken at the point of the introduction of Self Financing as to the approach to be taken with HRA debt effectively creating a separate debt pool for the HRA with the following elements:

1) Self-financing debt –£128.193m of debt taken on to fund payment to Government to exit the subsidy system, made up of 26 loans with maturity periods of 24 to 50 years. These loans were at "special" interest rates offered by PWLB purely for self-financing. Average interest rate is 3.49% which produced savings of £0.652m in 2012/13, which were transferred to the House-building Reserve annually as agreed by full Council to fund HRA new build and conversions. Contributions to that fund will cease from 2017/18 as part of these budget proposals following the Government's introduction of rent decreases from 2016/17;

2) Existing Debt – HRA share of the Authority's pre-self-financing debt valued at £162.631m as at 31 March 2012, split between the HRA and the General Fund. As loans mature, there is a separate consideration for the General Fund and HRA as to how those loans are treated. Opportunities to make savings from short-term borrowing have enabled some additional savings to be made which have helped the HRA Business Plan. For 2017/18 estimated debt interest due will total £4.835m, saving £0.481m on current year's budgeted charges, with a debt set aside of £3.890m;

3) New HRA Debt (restricted by debt cap)- New loans directly attributed to the HRA. 2017/18 will see re-financing of £3.715m from £8.405m of long-term maturities, once assumed debt repayments have been accounted for and temporary borrowing of £20.488m, with estimated reduced interest charges of £0.720m in 2017/18.

Overall actual debt will be around £265.617m by 31 March 2018. The Authority continually monitors the position on the HRA as part of the overall TMS to ensure the most efficient use of resources for the HRA and our tenants and to maximise flexibility around future investment needs and potential additions to the stock. The Authority's current approach to Treasury Management is set out in the Treasury Management Strategy attached as Appendix B.

2.1.5 Self-Financing and Depreciation

The Government's intentions around Depreciation within the HRA, and progress on producing a reliable method of calculation, have regularly been reported to Cabinet as part of the budget process since self-financing was introduced. The lack of a "proper" solution led to Government creating a 5-year "transitional" solution, based on the old Major Repairs Allowance (MRA) from subsidy being used as a "proxy", with revaluations and impairments being reversed out whilst a longer-term solution was sought. 2016/17 is the last year of that 5-year transitional period.

All initial indications were that, because a satisfactory solution could not be found, the "proxy" would continue but DCLG have now issued a new Item 8 Determination, prescribing how authorities provide for Capital charges, which assumes all authorities will charge a "true" Depreciation charge from 2017/18. In consultation with a number of other local authorities in the same position including Newcastle City Council, we are now urgently considering a solution which will need External Audit sign-off in order to determine an appropriate Depreciation charge to the HRA.

It has been assumed in the 2017/18 HRA Business Plan that Depreciation remains at the level of the “proxy” MRA figure, meaning a transfer of £15.650m to the Major Repairs Reserve up from £15.171m. Cabinet will be updated as soon as there is an agreed method for calculating Depreciation along with any implications for the HRA.

2.1.6 North Tyneside Living (NTL) Project

The NTL Project has been progressing during 2016/17, and is on course to complete the construction / refurbishment stage of the scheme by March 2017. At the time of writing this report a total of sixteen schemes have been completed and the final 11 are live.

2.2 Elected Mayor and Cabinet’s Proposals for the Housing Revenue Account Business Plan and Budget for 2017-20

Taking all of the above into the account Table 1 below summarises the Housing Revenue Account forecast plan for 2017–2020. The figures in the 28 November 2016 report start from the HRA budget monitoring position reported to Cabinet on 14 November 2016, which showed projected year-end balances of £4.362m. For this report the figures have been updated to reflect the budget monitoring position to 30 November 2016, as reported to Cabinet on 9 January 2017, which show estimated balances improving further to £4.627m as at 31 March 2017, with a net contribution to balances in-year of £0.239m.

The budget proposals presented here and in the relevant appendices ensure that a minimum of £2.5m 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 changes.

Table 1: 2017–2020 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	**2017/18 £000’s**	**2018/19 £000’s**	**2019/20 £000’s**
2017/18 Base Budget	0	0	0
Add:			
Pressures and Growth	2,868	(1,258)	344
Efficiencies	(2,141)	(719)	(595)
Reserves and Contingencies	(727)	1,977	251
Net Forecast Expenditure Variation	**0**	**0**	**0**

A three-year financial forecast for the Housing Revenue Account, along with more detail of Cabinet’s budget proposals to deal with Growth and Pressures and Service

Efficiencies and Income, is attached at Appendix C (i) – (iii) for information and the three-year Housing Investment Plan at Appendix D.

A further breakdown of the movement on Reserves and Contingencies is shown in Table 2 below; this includes a contribution from reserves of £1.080m. It is proposed to create additional contingency budgets of £0.353m to recognise issues including any inflationary increases and any pay award.

Table 2: 2017–2020 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	2017/18 £000's	2018/19 £000's	2019/20 £000's
Increase in Contingencies	353	215	214
Contribution to/(from) Balances	(1,080)	1,762	37
TOTAL	**(727)**	**1,977**	**251**

2.3 Investment Plan 2017-2020

2.3.1 Table 3 below shows the initial draft 2017-2020 Housing Investment Plan.

Table 3: Summary of Housing Investment Plan 2017-2020

Spend	2017/18 £000's	2018/19 £000's	2019/20 £000's	Total £000's
Housing	26,049	24,144	22,790	72,983
	26,049	**24,144**	**22,790**	**72,983**
Housing – HRA				
Capital Receipts	663	2,847	2,805	6,315
Revenue Contribution	6,818	5,955	4,136	16,909
Government Grant	160	0	0	160
Major Repairs Reserve / Dep'n	14,850	15,342	15,849	46,041
House Building Fund	3,558	0	0	3,558
Total Housing HRA Resources	**26,049**	**24,144**	**22,790**	**72,983**

The initial draft 2017-2020 Investment Plan for the HRA includes expenditure of £26.049m in 2017/18. Of this expenditure £46.041m (63%) is funded through Depreciation via the Major Repairs Reserve.

Capital receipts of £6.315m have been assumed in the financing of the draft plan.

Across the life of the draft plan there is currently no assumption of any additional unsupported borrowing. The cost of borrowing is included within the Housing

Revenue Account budget and Financial Plan. As stated above further details are attached as Appendix D.

2.4 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.
Attached at Appendix E is a note setting out the draft Prudential Indicators as calculated and proposed for the Housing Revenue Account for North Tyneside Council for 2017-20.

2.5 Overall Financial Risk Assessment

Financial risks are driven by changes to Government policy and the national financial climate, issues arising throughout the year and reported as part of the financial management reporting process and those risks highlighted as part of the Authority's risk management procedures and monitored through the Authority's risk registers. As part of the monitoring process the Authority's Corporate Risk Register is monitored twice yearly by Cabinet.

2.5.1 Key Financial Risks for the HRA

The key financial risks for the HRA, which have been considered as part of the Financial Planning and Budget process, are set out in the table below along with mitigating actions.

Table 9: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
There is a risk that the levels of savings and income included in the HRA Budget proposals are not fully deliverable.	A robust challenge process has taken place to align proposals to the Target Operating Model (TOM) and how this enables the Authority to deliver its Creating a Brighter Future (CBF) Programme. This programme will then be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken.
There is a risk that if the Creating a Brighter Future (CBF) programme / Target Operating Model (TOM) are not successfully implemented we may be	An overall Project Initiation Document and Terms of Reference are in place for all CBF projects which are in varying stages of delivery. This spans all

unable to deliver improved services and meet the increased demand on Council services within reducing resources. This could have the financial impact of the HRA not delivering on its Budget.	service redesign projects (Ready for School, Ready for Work and Life; Cared For, Safeguarded and Healthy; and a Great Place to Live, Work and Visit) plus the Maximising Resources and Fit For Purpose projects. Heads of Service have ownership for delivering the projects. Monthly Programme Board meetings via SLT take place which help ensure that there is visibility and accountability. It also enables reporting of progress against the plans.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2019/20 may be wrong, resulting in changes to the current targeted savings of £2.141m for the HRA which will be considered by Cabinet in January 2017.	There is flexibility within the CBF Programme which will allow us to reconfigure if the assumptions that have been made prove to be incorrect. We work closely with national, regional and sub-regional financial networks to help ensure we are informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made.
There is a risk that not all growth pressures have been identified in the 2017/18 proposed Budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed Budget provision.	Demand - led pressures continue in areas such as Adults and Children's Social Care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals.
There is a risk that specific factors arising during 2016/17 have not been fully taken into account when preparing the 2017/18 Budget.	The 2016/17 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures factors arising during the year are highlighted.
There is a risk that the in year pressures being reported through the 2016/17 financial management process impact on the deliverability of the 2017/18 budget.	As at 30th November 2016, an under-spend against budget of £0.924m was reported against the 2016/17 budget. All service managers and budget holders continue to monitor their budgets closely to continue to reduce the call on these

	budgets, and to try and further improve the out-turn forecast as we move through the year. In addition, non essential spend continues to be minimised. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2017/18 is insufficient.	The review of the base budget and the reflection of the 2016/17 pressures into 2017/18 are considered to be such that no further specific contingency is required.
There is a risk that there are insufficient levels of reserves and balances.	A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring process and planning process.
There is a risk that the level of capital receipts included in the Budget proposals are not deliverable.	Capital receipts of £0.663m are included in the financing of the 2017/18 Investment Plan. There are a number of actions being progressed that are expected to realise this requirement.
There is a risk that the Council will be unable to protect its housing assets and services to tenants as a consequence of reduced income to the Housing Revenue Account. Government policy on Welfare Reform is resulting in a number of direct challenges to rent collection; the Spare Room Subsidy and the Benefit Cap have already had an impact. Further Welfare Reform changes, including the implementation of Universal Credit and its revised payment period, and changes proposed in the new Welfare Reform and Work Act 2016; reducing social housing rents by 1% each year for the next 4 years from April 2016. This has the potential financial impact of reducing rental income by approximately £27m over the 4 year period of the rent reduction from April 2016, and by over £400m over a 30 year period.	A financial inclusion strategy 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 is being carried out which should result in easier payment methods e.g. the introduction of more direct debit payments, which will ensure that rents are collected. Through the implementation of self service and agile working overall costs should be reduced.
There is a risk that North Tyneside may be placed at a disadvantage following the decision to leave the European Union in both financial and economic growth terms. The full extent of the impact will not be clear until we know the precise trade terms which will apply once we formally leave the EU.	The potential impact from leaving the EU has been included in the Council's Financial Strategy. This is helping to ensure that potential areas of impact following the EU exit are highlighted and included (where relevant) in budget planning. The Council is a member of various regional groups which will help

	us keep up to speed on progress and have the opportunity to exert any influence that we can.

3.0 Response to the Overview, Scrutiny and Policy Committee recommendations

3.1 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 10th January 2017.

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 16 January 2017 prior to approving this report.

The meeting of the Overview, Scrutiny and Policy Committee on the 10th January 2017 considered a report by the Budget sub-group in relation to the initial budget proposals for 2017/18. In relation to the Housing Revenue Account, the Budget sub-group had considered the business case that detailed:

- Rent and Service Charge Income from moving voids to target;
- Capital Financing and Debt Management;
- Service Efficiencies and Improvement;
- North Tyneside Living PFI Project, and

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 2017/18 budget would ensure that service delivery would improve for those most in need and further develop cross departmental working.

4.0 Housing Revenue Account Statement to Cabinet by the Chief Finance Officer

4.1 Provisional Statement to Council by the Chief Finance Officer

4.1.1 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 2017/18, it is considered appropriate to include a statement to Cabinet by the Head of Finance in this report specifically relating to the Housing Revenue Account.

4.1.2 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 2015/16 Statement of Accounts, presented to full Council on 22 September 2016;

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

- The outcome of the 2016-2020 Local Government Finance Settlement and the Autumn Statement 2016 of 23 November 2016 and the implications for North Tyneside Council and the HRA.

The Chief Finance Officer is satisfied that due attention has been given to the 2017-20 Financial Planning and Budget process as it relates to the Housing Revenue Account and associated business plan.

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 2017/18 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 2017-20 “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 recognized as set down in the Authority’s Financial Regulations and in the roles and responsibilities section of the Authority’s Budget Management Handbook.

4.1.3 Adequacy of Financial Reserves

The 2017/18 HRA budget proposals assume that there will be a drawdown of £1.766m of reserves to support the 2017/18 HRA budget, to ensure that there are sufficient resources available to manage the service and maintain the stock to at least the minimum Decent Homes standard.

Housing Revenue Account

Table 4 below sets out the movement in reserves of the HRA. The budget proposals ensure that a minimum of £2.500m is retained in HRA revenue balances each financial year covering the three years of the Financial Plan to ensure some measure of contingency and financial stability. The 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 4: 2017–2020 Housing Revenue Account Balances

HRA Forecast Movement on Reserves	**2017/18** **£000's**	**2018/19** **£000's**	**2019/20** **£000's**
Opening Reserve Balance	(4,627)	(2,861)	(2,857)
Add:			
Original Contributions (to) / from balances	686	1,766	4
Change in contributions (to) / from Balances	1,080	(1,762)	(37)
Predicted Reserve Balance Carried Forward	**(2,861)**	**(2,857)**	**(2,890)**

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 2017/18 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 2017/18 HRA budget and associated business plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long term reliance on reserves.