

HOUSING AND HOMES OVERVIEW AND SCRUTINY COMMITTEE

17TH OCTOBER 2017

HOUSING REVENUE ACCOUNT

This introductory note sets out an overview of the Housing Revenue Account.

Background

- a Housing Revenue Account has to be maintained by all Local Authorities that are landlords and provide social housing
- the major legislation that governs the financial operation of the HRA is the Local Government and Housing Act 1989 (this established the ring fenced HRA and introduced new obligations to balance the annual budget) – the legislation also set out the income and expenditure that needs to be accounted in the HRA
- the Localism Act 2011 established a new self-financing framework (this included the dismantling of the subsidy system, the introduction of a debt cap) and required Local Authorities to maintain a long term HRA Business Plan
- the HRA Business Plan is reported annually to City Council as part of the Annual Financial Plan and Budget (the current plans are attached in the Appendices).

Overview Summary

- the Council currently manages in excess of 62,000 homes (in addition to almost 4,500 leaseholders) and the total stock is 15% of all homes in Birmingham
- there are a number of medium term financial considerations for the HRA (relating primarily to national policy and legislation) and include:
 - the national rent policy of -1% for a 4 year period between 2016/17 and 2019/20
 - the continued Welfare Reforms and the introduction of Universal Credit
 - the potential implications from the Housing White Paper (February 2017) and proposed Housing Green Paper
- the key service priorities include the building of new homes, maintaining the current improved condition of properties (through a programme of lifecycle replacement of property components) and the discharge of statutory day to day repairs obligations
- the current Business Plan is balanced over the next 10 year period and includes capital investment of over £1bn over the next 10 years

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CHAPTER 4: HOUSING REVENUE ACCOUNT (HRA)

1. Summary

- 1.1 The HRA Self Financing Framework was introduced from April 2012 (as part of the Localism Act 2011) and this required local authorities to maintain a long term HRA Business Plan.
- 1.2 The HRA Business Plan 2017+ sets out the immediate and long term financial plans and is underpinned by a number of key operational assumptions (relating to property, arrears, debt, inflation and rent levels).
- 1.3 The HRA Business Plan 2017+ shows a balanced long term financial plan and incorporates the continuation of a long term debt reduction programme that commenced in 2015/16 (to match the expected life spans of existing properties), but at a slower rate than initially planned.
- 1.4 The national rent policy introduced from April 2015, intended to cover a 10 year period, was substantially amended for the 4 years from April 2016. The policy is now based on rent reductions of 1% per annum for 4 years, followed by annual increases at CPI +1% with rent convergence only taking place for new tenancies (full details of the rent setting policy are set out in a separate Cabinet Report considered on 14 February 2017).

2. Background

- 2.1 The City Council is one of the largest providers of social housing in Europe, managing in excess of 62,000 homes representing 15% of the total housing available within the City. There is a substantial level of unmet need for affordable housing in Birmingham, with a waiting list of over 18,000 households and the need for an estimated 26,000 additional social rented or affordable homes by 2031.
- 2.2 The HRA is a statutorily ring-fenced account that deals with income and expenditure arising as a result of the City Council's activities as a provider of social and affordable housing. The legislation requires that income and expenditure relating to the City Council's provision of social and affordable housing must be accounted for within the HRA and that the proposed annual budget is balanced.

3. Strategic Overview and Context of Financial Pressures on the HRA

- 3.1 The HRA is under considerable service and financial pressure to reflect national and local policy changes and in particular the following issues are highlighted:
 - Impact of the Welfare Reforms and the introduction of the Universal Credit – research conducted by the Association of Retained Local Authorities indicated that rent arrears increased in those areas where Universal Credit has been introduced by an average of 16% in the first quarter

following implementation. As direct payment of housing benefit to recipients is introduced, this is likely to increase substantially. In excess of 70% of the Council's HRA tenants are currently in receipt of housing benefit. Therefore the impact of this transition in Birmingham is likely to be significant as the transition from Housing Benefit to Universal Credit continues

- The impact of the revised national rent policy (rent reductions of 1% per annum between 2016/17 and 2019/20) is estimated to result in a loss of HRA income increasing to approximately £42m per annum by 2019/20
- The future impacts of the proposed government policy for introducing a tariff relating to high value void dwellings (likely to be implemented from 2018) is not yet known, but early estimates are that this might equate to a cost to the HRA of in excess of £5m per annum once implemented.

- 3.2 In addition, there are statutory requirements to ensure that there is no cross-subsidy between the HRA and General Fund services (the "who benefits" principle – designed to ensure that council tenants do not pay twice for the same service, through both Council Tax and Rents), that an annual balanced budget is set and that the service is sustainable and affordable in the long run based on the HRA Self-Financing Framework.

4. Key Outcomes and Strategic Housing Service Objectives

- 4.1 The HRA Business Plan 2017+ is intended to support the following key strategic and housing service objectives:

Building New Homes and Maintaining Stock

- Provision of new affordable housing to replace obsolete properties and provide a significant contribution to the Housing Growth Strategy (2,570 new council homes over the next ten years with an associated investment of £379m)
- Maintaining properties in their current improved condition (to ensure that the properties are not impaired) with an investment of £585m over the next ten years
- Life-cycle replacement of property components (windows, heating, kitchens, bathrooms, roofs, electrical components)
- Discharge of statutory day to day repairs and maintenance obligations (including compliance with health and safety on annual gas inspections) with investment of £669m over the next ten years.
- Adaptations to properties to continue to promote independent living (an investment of £37m over the next ten years)

Local Housing and Estate Services

- Continued modernisation of the delivery of local housing management services (e.g. annual visits, review and more rigorous enforcement of tenancy conditions, in particular anti-social behaviour)
- Implementation of a revised operating model for sheltered housing services, aligned to a revised charging structure to minimise residual costs borne by the HRA. The details of the revised approach were set out in a Cabinet Report considered on 24 January 2017.
- An ongoing review of other estate based services that are subject to service charges (including caretaking and cleaning), with any resulting service redesigns and revisions to service charges to be delivered during 2017/18 and 2018/19 to ensure that changes in service provision to tenants are phased in over a suitable time period with appropriate consultation built into implementation plans. These service reviews are designed to ensure that the services are delivered efficiently and offer good value for money to the tenants in receipt of the services, whilst ensuring that they are not cross-subsidised by other tenants not receiving the services
- Improving performance on rent collection and empty properties
- Secure efficiencies in Business Support Services to ensure that scarce resources are not unnecessarily diverted away from front line service delivery and investment priorities

Rent Policy

- To ensure that the rent policy is consistent with the revised national rent policy (rents will further reduce by 1% in 2017/18 with additional 1% reductions for the next two years, followed by increases of CPI +1% for subsequent years)
- To ensure that service charges are set at a level that reflects the costs of service delivery, whilst ensuring value for money for tenants and ensuring that charges are eligible for support through housing benefit wherever possible.

5. HRA Business Plan 2017+ and Budget 2017/18

5.1 A summary of the HRA Business Plan 2017+ is set out in Appendix 8.

5.2 In summary, the Business Plan will ensure a continued sustainable and affordable long term financial plan for the housing service (sustained reduction in long-term debt and affordable rents) and the strategic financial issues are highlighted below:

- A balanced revenue budget over the next 10 years, achieved as a result of:
 - Substantial reductions in future rental income as a result of the implementation of the revised National Rent Policy as set out in the Rent Policy Section above
 - A reduction in resources available to the HRA as a result of the introduction of the Government's high value voids policy from 2018/19, estimated to cost the HRA a total of £49m by 2026/27
 - A clear focus on improved collection of rents from tenants, linked to the review and enforcement of tenancy conditions and continuation of the annual visits programme
 - Increased prudential borrowing within the HRA debt cap to replace revenue contributions required to support planned capital expenditure, including the council housing new build programme and investment in existing housing. The financial viability of individual schemes (including the affordability of any new borrowing that may be required) will continue to be considered as a part of the Full Business Case produced for each scheme or programme
 - Rephasing and deferral of the planned debt repayment and reduction programme to ensure a balanced overall position year on year. This rephasing continues to deliver a reduction in total HRA debt, with the balance outstanding falling to below £500m by 2038/39 and the achieving of a debt:income ratio of below 2:1 by 2033/34. This compares to the previous debt profile that achieved a reduction to £500m by 2034/35, and a debt:income ratio of below 2:1 by 2026/27
- The debt repayment strategy still includes loan redemptions in all years from 2017/18 (although the total forecast debt outstanding in 10 years' time - 2026/27- is £147m higher than previously planned at £980m). Total HRA debt at 31 March 2017 is forecast to amount to £1,118m
- Average borrowing per property of £18k in 2017/18, reducing slightly to £17k over the next 10 years and to below £10k per property by 2037/38 (effectively the average mortgage on each HRA property)

- Maintenance of adequate reserves and provisions for potential bad debts (estimated for 2017/18 at £30m including minimum balances of £4m and provisions for bad debts of £26m)

5.3 The comparison of the HRA budget for 2016/17 and the proposed budget for 2017/18 is set out in the table below:

Table 4.1 HRA Budget	2016/17 £m	2017/18 £m	Change £m	Change %
Repairs	65.571	64.460	(1.111)	-1.7%
Local Housing Costs	68.705	68.360	(0.345)	-0.5%
Estate Services Costs	18.752	16.978	(1.774)	-9.5%
Arrears	4.169	3.425	(0.744)	-17.8%
Debt Financing Costs	53.529	51.691	(1.838)	-3.4%
Debt Repayment	1.166	24.830	23.664	2029.5%
Contributions for Capital Investment	75.143	54.014	(21.129)	-28.1%
Total Expenditure	287.035	283.758	(3.277)	-1.1%
Rental Income (net of Voids)	(263.098)	(259.040)	4.058	-1.5%
Other Income/Service Charges	(23.937)	(24.718)	(0.781)	3.3%
Total Income	(287.035)	(283.758)	3.277	-1.1%

5.4 The cost changes on Debt Repayment and Contributions for Capital Investment elements substantially cancel each other out and relate primarily to increased funding of the Housing Capital Programme from housing capital receipts generated through the sale of properties on the open market as a part of the Birmingham Municipal Housing Trust (BMHT) programme.

6. HRA Business Plan 2017+ – Short Term and Long Term Financial Evaluation

6.1 The revenue aspects of the HRA Business Plan 2017+ are summarised in Table 4.2

Table 4.2 HRA Business Plan 2017+	2017/18 £m	2018/19 £m	2019/20 £m	10 Year £m
Repairs	64.460	64.475	64.176	668.684
Local Housing Costs	68.360	64.757	64.654	670.894
Estate Services Costs	16.978	18.300	18.813	199.909
Arrears	3.425	3.631	3.637	39.401
High Value Voids Tariff	0.000	5.168	5.078	49.245
Debt Financing Costs	51.691	50.679	50.625	501.268
Debt Repayment	24.830	11.264	2.697	138.046
Contribs for Capital Investment	54.014	61.591	66.048	683.115
Total Expenditure	283.758	279.865	275.728	2,950.562
Rental Income (net of Voids)	(259.040)	(254.854)	(250.393)	(2,687.543)
Other Income/Service Charges	(24.718)	(25.011)	(25.335)	(263.019)
Total Income	(283.758)	(279.865)	(275.728)	(2,950.562)

7. Capital Programme

- 7.1 The capital expenditure plans for the council housing stock are set out in Table 4.3 (including the major programmes and the financing of expenditure). The capital investment strategy is based on ensuring that the properties continue to be maintained in their improved condition in order to promote strong and stable neighbourhoods and the provision of new social and affordable rented housing to meet the continuing demand and need for new homes.

Table 4.3 Capital Expenditure	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Housing Improvement Programme	56.000	55.997	56.629	168.626
Adaptations	3.351	3.418	3.487	10.256
New Build and Regeneration	76.941	54.590	44.014	175.545
Other Programmes	1.504	1.514	1.524	4.542
Total	137.796	115.519	105.654	358.969
Funded by:				
Revenue Contributions	(54.014)	(61.591)	(66.048)	(181.653)
Receipts / Grants	(48.298)	(34.928)	(20.606)	(103.832)
Disposals to InReach	(19.000)	(19.000)	(19.000)	(57.000)
Other Resources inc Reserves	(16.484)	0.000	0.000	(16.484)
Total	(137.796)	(115.519)	(105.654)	(358.969)

Chapter 5 - Capital Resources

1. Summary

- 1.1 The Capital Programme is financed predominantly from prudential borrowing, Government Grants and other contributions, HRA resources, and capital receipts. Capital receipts are also used to fund Equal Pay settlements and projects under the Government's capital receipts flexibility scheme.

2. Capital Resources

- 2.1 Resources of £918.9m have been identified to fund the City Council's three year Capital Programme from 2017/18 to 2019/20. These are summarised in Table 5.1 and can be divided into specific resources and corporate resources.

Table 5.1 - Financing the Capital Programme

	2017/18	2018/19	2019/20	Total
	£000s	£000s	£000s	£000s
Specific Resources				
Government Grants & Contributions	158,856	93,407	8,260	260,523
HRA Revenue Resources & Reserves	54,014	61,591	66,048	181,653
Other Specific Revenue Resources	9,207	31	0	9,238
HRA Capital Receipts	36,535	11,946	12,339	60,820
Capital Receipts	38,240	13,000	0	51,240
Total Specific Resources	296,852	179,975	86,647	563,474
Corporate Resources				
Prudential Borrowing	167,376	97,031	90,998	355,405
Capital Receipts	0	0	0	0
Total Corporate Resources	167,376	97,031	90,998	355,405
Total Resources	464,228	277,006	177,645	918,879

3. Specific Resources

- 3.1 Specific capital resources total an estimated £563.5m over all three years and represent funding which has been obtained for a particular purpose - e.g. specific Government Grants, developer contributions, HRA revenue resources and HRA Right to Buy capital receipts. These projects are added to the

capital programme on a rolling basis as the resources are awarded to the City Council and as HRA revenue resources and capital receipts become available.

- 3.2 The largest component of specific resources is Government Grants and other capital contributions, for which the City Council is budgeting to receive £260.5m over the three year capital programme. The Government continues to support a number of major investment programmes in local authority assets. For the City Council this includes grants for Education Basic Needs (school places). These programmes will form a significant part of the capital investment undertaken by the City Council in the next few years.
- 3.3 Details of all capital grants and contributions that have been budgeted for in 2017/18 to 2019/20 are detailed in Appendix 10.
- 3.4 The Government also supports capital investment in the Highways Maintenance and Management PFI through revenue grant but as the City Council does not directly incur capital expenditure, PFI is not part of the capital resources shown in table 5.1 above.
- 3.5 HRA revenue contributions of £181.7m and HRA capital receipts of £60.8m are planned to support capital investment in the HRA Business Plan, in accordance with the self-financing reform of housing introduced by the Government in 2012/13.
- 3.6 Capital receipts of £51.2m are budgeted in 2017/18 and 2018/19 to help fund revenue reform and redundancy costs required to deliver the City Council's savings proposals, in accordance with the capital receipts flexibility announced in the Government's 2015 Autumn Statement.
- 3.7 Other specific revenue resources of £9.2m are programmed to support capital investment across a number of minor schemes.

4. Corporate Resources

- 4.1 Corporate capital resources presently assumed for the programme total £355.4m over the three years. These represent resources which the City Council has more freedom to allocate to meet its own policy priorities and expenditure commitments.
- 4.2 The City Council's capital financing plans seek to use capital resources in the most efficient way to finance the City Council's needs. This is expected to include using borrowing to provide general support to the Capital Programme. All of the £355.4m corporate resources assumed in this Programme therefore are from prudential borrowing. Final decisions as to how best to fund the capital programme are taken as part of the capital outturn process at the end of the year. The capital strategy (Chapter 6) sets out a prudent policy in relation to future borrowing.

- 4.3 Capital receipts are expected to be used to finance capital expenditure, including capitalised revenue costs under the Government's capital receipts initiative. Capital receipts are also used to fund debt redemption in accordance with the Council's MRP Policy, and to fund Equal Pay settlements. The financial implications of the funding of Equal Pay settlements have been included in the Budget, and in the Long Term Financial Plan in relation to later years. This takes account of borrowing costs and loss of income or other costs arising from asset sales.

APPENDIX 8: HOUSING REVENUE ACCOUNT

	Year 1 2017/18	Year 2 2018/19	Year 3 2019/20	Year 4 2020/21	Year 5 2021/22	Year 6 2022/23	Year 7 2023/24	Year 8 2024/25	Year 9 2025/26	Year 10 2026/27	Year 1 to 10 Total	Year 30 2045/46	Year 1 to 30 Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
HOUSING REVENUE ACCOUNT													
Income													
Rental Income	(262.616)	(258.393)	(253.892)	(259.804)	(265.941)	(272.265)	(278.509)	(284.707)	(291.122)	(297.660)	(2,724.909)	(479.705)	(10,450.208)
Voids	3.576	3.539	3.499	3.576	3.657	3.739	3.820	3.902	3.986	4.072	37.366	6.325	141.438
Net Rental Income	(259.040)	(254.854)	(250.393)	(256.228)	(262.284)	(268.526)	(274.689)	(280.805)	(287.136)	(293.588)	(2,687.543)	(473.380)	(10,308.770)
Service Charges / Other Income	(24.718)	(25.011)	(25.335)	(25.750)	(26.212)	(26.520)	(26.926)	(27.219)	(27.515)	(27.813)	(263.019)	(31.932)	(863.951)
Total Revenue Income	(283.758)	(279.865)	(275.728)	(281.978)	(288.496)	(295.046)	(301.615)	(308.024)	(314.651)	(321.401)	(2,950.562)	(505.312)	(11,172.721)
Expenditure													
Repairs	64.460	64.475	64.176	64.932	65.186	66.347	67.958	68.586	70.628	71.936	668.684	98.684	2,354.206
Management	68.360	64.757	64.654	65.283	63.848	65.438	67.080	68.752	70.480	72.242	670.894	113.157	2,514.026
Bad Debt Provision	3.425	3.631	3.637	4.041	4.066	4.088	4.100	4.114	4.139	4.160	39.401	4.753	128.619
Estate Costs	16.978	18.300	18.813	19.287	19.780	20.283	20.803	21.334	21.885	22.446	199.909	35.274	774.726
High Value Voids Tariff	0.000	5.168	5.078	5.196	5.319	5.445	5.570	5.694	5.822	5.953	49.245	9.594	203.752
Capital Financing - Loan Redemption	24.830	11.264	2.697	2.773	1.559	13.627	19.662	18.224	20.266	23.144	138.046	5.610	663.006
Capital Financing - Interest and Other Costs	51.691	50.679	50.625	50.905	51.571	51.019	49.842	49.562	48.325	47.049	501.268	22.562	1,149.041
Contribution to Capital	54.014	61.591	66.048	69.561	77.167	68.799	66.600	71.758	73.106	74.471	683.115	215.678	3,385.345
Total Revenue Expenditure	283.758	279.865	275.728	281.978	288.496	295.046	301.615	308.024	314.651	321.401	2,950.562	505.312	11,172.721
Net (Surplus) / Deficit	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CAPITAL ACCOUNT													
Investment													
Housing Improvement Programme	56.000	55.997	56.629	57.323	58.052	58.797	59.499	60.186	60.885	61.588	584.956	80.380	2,006.990
Adaptations	3.351	3.418	3.487	3.556	3.628	3.700	3.774	3.850	3.927	4.005	36.696	5.951	135.954
Redevelopment / Clearance	76.941	54.590	44.014	42.053	46.718	35.676	34.842	36.113	36.937	37.780	445.664	42.103	1,123.268
Other Investment	1.504	1.514	1.524	1.533	1.543	0.782	0.792	0.803	0.814	0.826	11.635	106.995	815.194
Total Investment	137.796	115.519	105.654	104.465	109.941	98.955	98.907	100.952	102.563	104.199	1,078.951	235.429	4,081.406
Financing													
Receipts / Grants / Other	(83.782)	(53.928)	(39.606)	(34.904)	(32.774)	(30.156)	(32.307)	(29.194)	(29.457)	(29.728)	(395.836)	(19.751)	(696.062)
Contribution from Revenue	(54.014)	(61.591)	(66.048)	(69.561)	(77.167)	(68.799)	(66.600)	(71.758)	(73.106)	(74.471)	(683.115)	(215.678)	(3,385.344)
Total Expenditure	(137.796)	(115.519)	(105.654)	(104.465)	(109.941)	(98.955)	(98.907)	(100.952)	(102.563)	(104.199)	(1,078.951)	(235.429)	(4,081.406)
Net (Surplus) / Deficit	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Borrowing headroom @ 31st March	57.127	68.391	71.068	73.861	75.419	89.047	108.708	126.932	147.198	170.342		695.303	