Report to COUNCIL

Housing Revenue Account Estimates for 2015/16 to 2020/21

Portfolio Holder:
Joint Report of the Cabinet Member (Finance and HR), Councillor Abdul Jabbar and Cabinet Member (Housing, Planning and Transport), Councillor David Hibbert

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Reason for Decision

The report sets out the latest Housing Revenue Account (HRA) outturn estimate for 2015/16, the detailed budget for 2016/17 and strategic estimates for the four years 2017/18 through to 2020/21. The report also sets out the recommended dwelling and non-dwelling rents and service charge increases to be applied from April 2016.

Executive Summary

The report sets out the HRA estimated outturn for 2015/16 and the proposed 2016/17 Original Budget. The opportunity is also taken to present the provisional Strategic Budgets for 2017/18 through to 2020/21

After taking all relevant issues into account, the projected financial position for 2015/16 is estimated to be a £0.350m adverse variance when compared to the original forecast made in February 2015. The variance is largely attributable to the continuing support of the District Heating System and its associated utility and management costs. In addition the HRA has incurred further liabilities in 2015/16 as a result of unforeseen void property charges and additional contract management advisory costs.

The financial position for 2016/17 shows an estimated HRA closing balance of £15.447m which is considered to be sufficient to meet the future operational commitments and the potential financial pressures identified in the risk assessment. The 2016/17 position has been presented after allowing for an average increase in rent of 0.9%.

Members will recall that it had initially been understood that Social Housing would benefit from a 1% rent reduction for a 4 year period. The Government has advised that PFI properties will continue to operate under the current rent restructuring programme. As all Oldham housing stock is contained within 2 PFI schemes the 2016/17 budget will follow current rent setting guidance of CPI plus 1% resulting in an increase of 0.9%.

The strategic estimates for 2017/18 to 2020/21 are included in the report and highlight that due to the limited nature of activity in the HRA and as a result of the operation of the two PFI contracts, the HRA financial position is expected to be stable going forward.

The proposed HRA Budget for 2016/17 and future years was subject to scrutiny at the Overview and Scrutiny Performance Value for Money Committee on the 21 January 2016. The Committee was content with the information in the report and recommended it to Cabinet for consideration. It should be noted that this meeting predated changes to the Welfare Reform and Work Bill and also the approval by Cabinet of the report on Princes Gate, all of which have had an impact on HRA balances and are now included in this report.

Recommendations

That Council approves the:

1. Forecast HRA out-turn for 2015/16; (as per Appendix A)
2. Proposed HRA budget for 2016/17 (as per Appendix B)
3. Strategic estimates for 2017/18 to 2020/21 (as per Appendix D)
4. Proposed increase to dwelling rents for all properties of 0.9%
5. Proposed increase to non-dwelling rents of 1%
6. Proposed increase to PFI 2 service charges to continue on previously approved transitional arrangements
7. Proposed increase to PFI 4 service charges to be based on a review of the actual charges incurred.

Housing Revenue Account Estimates 2015/16 to 2020/21

1 Background

1.1 The budget and policy framework, sets out an annual timetable for the HRA budget process. Production of this report and the ability to scrutinise the budget, are key features of that framework, along with consultation with tenants. The HRA Budget report for 2016/17 is therefore presented for approval by Council having been subject to scrutiny at the Overview and Scrutiny Performance and Value for Money Select Committee on 21 January 2016 and considered and approved by Cabinet at its meeting on 11 February 2016.

2 Current Position

Housing Stock

2.1 The housing stock currently comprises 2,065 properties with all properties now being managed and maintained within the two Private Finance Initiative (PFI) schemes. In addition, there are formally approved works for the Council to build out the remainder of Primrose Bank - Phase 1, resulting in a potential additional 17 new builds to the HRA estate. It is intended that these additional properties will be completed by 31st March 2017. However it should be noted that the allocation of these properties into the HRA is a fallback position, the initial focus being that all properties will be sold privately. As the inclusion of these properties within the HRA is a fallback position, all anticipated revenue streams have been excluded from current HRA projections until the final sales figures have been confirmed.

PFI 2

2.2 The PFI 2 contract between the Council and Housing 21 was signed in 2006 to provide 1,431 sheltered accommodation dwellings in a mixture of bungalows and group schemes with construction finishing in May 2012. The operational contract runs to September 2036. The total construction value is £105m, all of which is payable through the annual unitary charge and funded by the annual PFI grant.

2.3 The project has had a lengthy dispute profile, and on three occasions the Authority's right to levy deductions has been referred to Adjudication, the last of which was in May 2012. In all cases the Authority has been successful in defending its position. Following further negotiation, in July 2013 a Deed of Variation was signed between the Council and Housing 21, committing Housing 21 to a comprehensive schedule of works to bring the dwellings up to the agreed contractual standards by 2016. A condition of the deed was the withdrawal of a number of compensation claims that had been submitted by Housing 21.

2.4 The work is well advanced and has generally been completed to the Council's satisfaction. However until all the works are completed, there obviously remains a residual financial and operational risk and the Council will maintain its rigorous inspection regime for the period of the works. The HRA budget for 2016/17 has been prepared on the assumption that payments to Housing 21 will be in accordance with the continued satisfactory undertaking of the Deed of Variation.

PFI 4 Gateways to Oldham

2.5 The Gateways to Oldham PFI 4 scheme reached financial close in November 2011 and has seen the refurbishment of 317 existing properties and the creation of 317 new homes, with a total capital value of £77m. The Council has entered into a 25 year contract with Inspiral Oldham who is using private finance to fund the construction works and manage and maintain the properties for the duration of the contract through to October 2036. Construction was completed in December 2014 (317 refurbishments and 317 new homes in total) with all the required highway works and public open space improvements finalised in November 2015. As a result of the delays to the infrastructure works there has been a small saving to the 2015/16 unitary charge.

2.6 To assist with overall Programme Affordability, the Authority has made a total capital contribution of £12.036m with payments being phased as dwellings were commissioned.

The Self-Financing Housing Revenue Account

2.7 April 1st 2012 saw the introduction of the Self Financing Housing Revenue Account, replacing the Government housing subsidy regime. In practical terms the HRA is now a self-sufficient ring-fenced account which will retain and use rental income, and in the case of Oldham, PFI credits, to meet all its management, maintenance and repairs commitments, including the respective unitary charges. The aim of the reforms was to enable Councils to manage their housing stock for the benefit of local residents in a transparent, accountable and cost effective way.

2.8 As part of the self-financing settlement the Department for Communities & Local Government (DCLG) fully re-paid the debt allocated to the HRA. Linked to the settlement, DCLG also issued a 'limit of indebtedness', which in practical terms enables the HRA to raise approximately £9m in new borrowing.

2.9 A further key element of the self-financing arrangement was a decision taken by Government to provide a five year transition period during which depreciation need not be charged in the HRA. This transitional period is due to finish in 2016/17 with the first actual depreciation charge against the HRA being made in 2017/18. However as yet, no formal notification has been received confirming this arrangement. Charging depreciation within the HRA will ensure Authorities are accumulating appropriate balances in order to have sufficient resources to allow for any repairs needed to their housing stock. Oldham has incorporated the full depreciation charge within the Business Plan on an ongoing basis from 2017/18.

Rent Restructuring

2.10 Rent restructuring (convergence) was introduced in 2002/03. This set out a new methodology for the calculation of dwelling rents, attempting to equalise rent charges between Local Authorities and Housing Associations over ten years.

2.11 Oldham Council complied with the restructuring guidance in each year from 2002/03 including those years when voluntary individual rent increase limits was requested.

2.12 In October 2013 the Government issued consultation papers entitled "Rents for Social Housing from 2015-16" and also "Direction on the Rent Standard 2013" in which it recommended that the date of convergence be brought forward by one year from 2015/16 to 2014/15. In addition the paper also outlined a move away from annual increases in weekly rents from RPI + 0.5% to CPI + 1% (effective from 1st April 2015). These proposals were formalised in the government document, "Direction on the Rent Standard 2014" published 23rd May 2014. Reasons for the shift to CPI were that the move brought with it increased stability for both tenants and landlords as the calculations did not include housing costs which in previous years has led to increased rate volatility. The 2015/16 HRA budget and future years' financial forecasts were prepared reflecting Government policy.

2.13 In the Chancellor's Summer Budget announcement in July 2015 and the subsequent Welfare Reform and Work Bill, Government detailed legislative moves to impose social rent reductions at 1% for the next four years (2016/17 to 2019/20), in effect unwinding previous policies of rent convergence. The Chancellor indicated that given the level of social rents funded by Housing Benefit, this move would lead to significant public sector savings.

2.14 The level of rents recommended for approval for 2016/17 and included in the 2016/17 budget projections follows the current government guidance. The enactment of the Welfare Reform and Work Act 2015/16 will to have no effect on the Council's rent setting process as all PFI properties are set to be excepted from the social housing rent reduction. The 2016/17 annual rents proposed for all HRA tenants will see rents increase by 0.9% (CPI as at September 2015 -0.1% plus 1%).

2.15 Based on government guidance for rent increases, it is estimated that the average rent increase from April 2016 will be £0.71 (from £79.27 to £79.98 on a 48 week basis).

The Revised HRA Budget 2015/16

2.16 The 2015/16 estimated outturn is attached at Appendix A showing an estimated year-end working balance of £17.142m, £0.350m lower than estimated in the Budget Council meeting held in February 2015. This variance is largely attributable to the continued support of the District Heating System and its associated utility and management costs. In addition the HRA incurred further liabilities in 2015/16 as a result of unforeseen void property charges and additional contract management advisory costs.

2.17 The composition of the balance is summarised below;

Analysis of HRA Balances 2015-16	Original Budget £m	Revised Budget £m	Variance £m
HRA Balances b/fwd	(16.062)	(16.374)	(0.312)
(Surplus)/Deficit for the year on HRA Services	(1.430)	(0.768)	0.662
HRA Balances c/fwd	**(17.492)**	**(17.142)**	**0.350**

The HRA Budget 2016/17

2.18 The proposed HRA budget for 2016/17 is attached at Appendix B including all balances, income and expenditure met from the two PFI reserves.

2.19 PFI credits for the two schemes are paid on an annuity basis; that is, they remain constant throughout the life of the projects. In the early years of the schemes, these credits exceed the unitary charges and other costs payable. These early year surpluses, together with any interest earned, are retained to meet later year deficits as unitary charge payments to the service provider are increased year on year by an inflationary factor. All HRA balances are specifically earmarked for these projects, as identified in Appendix B.

2.20 Other key assumptions made in determining the budget are that:

(1) Average rents are 0.9% higher than for 2015/16 for all HRA tenants.

(2) Void levels have been assumed at 2% per annum on PFI 4 properties and a 3% void level on PFI 2 properties. PFI 2 void percentages have been increased by an additional 1% from the previous assumptions, to reflect the current tenancy placement work ongoing, ensuring that tenant mixes in the six Extra Care Schemes are appropriate to the levels of care provision required. The 3% void levels have been considered to be a more prudent, ongoing assessment of the PFI 2 property void position.

(3) There are 48 chargeable rent weeks in 2016/17
(4) Service Charges and Extra Care Housing charges are continued/applied from April 2016 in line with previous approval.

2.21 The estimated 2016/17 HRA closing balance of £15.447m is considered to be sufficient to meet the future operational commitments and the potential financial pressures identified in the risk assessment. Appendix B presents the projected 2016/17 HRA budget based on the currently approved position.

Dwelling Rent, Non-Dwelling Rents and Services Charges Increases 2016/2017

2.22 The HRA 2016/17 budget has been calculated assuming current rent setting Government guidance. Therefore rents have been increased in line with current rent setting legislation as outlined in paragraph 2.14 above. Service charges are also exempt from the 1% social rent reduction legislation. It is therefore, the Council's intention to increase service charges in line with transitional arrangements, actual charges incurred and inflation.

2.23 Central heating charges remain for some of the PFI properties and it is proposed to continue recharging tenants on the basis of actual costs incurred.

2.24 Service charges will continue to be passed on to all PFI 2 tenants in 2016/17, following the widespread consultation in October 2013. The Cabinet meeting of 16th December 2013 approved service charging with a phased 5-year implementation with increases on a straight line 20% basis.

2.25 From the Council's perspective, service charges were deemed necessary as it helped minimise long term risk to the Council's HRA Business Plan whilst also serving to establish a more stable and realistic financial environment in which to manage the housing stock.

Extra Care Housing (ECH) Phase 1

2.26 Four PFI 2 schemes were initially identified to benefit from an enhanced care, support and security offer starting in 2014. Venues chosen were Trinity House (Coldhurst), Aster House (Coldhurst), Tandle View Court (Royton) and finally Charles Morris House (Failsworth). This accommodation is for those who need additional care and support that is not available within other available housing with care options e.g. Sheltered Accommodation.

2.27 On the 24th February 2014 Cabinet approved a plan to implement a new care and support offer during the day, with a night time concierge service for residents delivered by our PFI partner Housing 21. This took the four schemes from Sheltered Accommodation to Extra Care Accommodation. Extra Care Housing is a step up from Sheltered Housing and a step down from 24 hour residential or nursing placements. An exercise was undertaken to review the offer within the other 4 schemes. At its meeting on 26th January 2015, Cabinet approved proposals for the implementation of Extra Care within Old Mill House and Hopwood Court (Extra Care Phase 2a).

2.28 As part of the implementation of Phase 1 Extra Care Housing, the HRA budgeted to help fund a range of non-recoverable one-off costs. The latest estimates are that these costs will total approximately £0.230m (£0.036m of this balance having already been incurred in 2014/15). In addition to these costs the HRA will also incur an additional non-recoverable, recurrent, CCTV revenue maintenance cost estimated to be in the region of £0.033m per year, whilst also committing to underwrite the phased implementation of night concierge cost recovery. The original expectation was that Extra Care Housing Phase 1 would be implemented as from April 2014, however due to difficulties in identifying a suitable care partner and also issues encountered when recruiting to the night concierge positions the first ECH site didn't go live until September 2014.

2.29 The remaining budget impact on the HRA of the adoption of ECH Phase 1 is as follows –

Description	2015/16 £k	2016/17 £k	2017/18 £k	2018/19 Onwards £k
Night Concierge Costs	142	145	148	151
Night Concierge Costs Recovery	(72)	(111)	(126)	(130)
One Off Costs	137	57		
CCTV Maintenance	33	33	33	33
Net Impact on HRA	**240**	**124**	**55**	**54**

2.30 The proposed HRA budget and associated balances are based on current estimates. This has led to a reduction of the HRA balance relating to Extra Care Phase 1 of £240k in 2015/16, £124k in 2016/17, a further £55k in 2017/18 and an on-going £54k thereafter.

Extra Care Housing Phase 2a & 2b

2.31 At the Cabinet meeting of the 26th January 2015, formal approval was given for the introduction of two further Extra Care Housing schemes, namely Old Mill House and Hopwood Court.

2.32 The profiled impact on the HRA of the adoption of ECH Phase 2a is as follows –

Description	2015/16 £k	2016/17 £k	2017/18 £k	2018/19 Onwards £k
Night Concierge Costs	30	73	74	76
Night Concierge Costs Recovery	(13)	(31)	(49)	(57)
CCTV Maintenance	7	17	17	17
Net Impact on HRA	**24**	**58**	**42**	**36**

Note - 2015/16 is a part year, November to March 2016.

2.33 Following further feasibility studies and tenant consultation a decision was recently made not to continue with phase 2b. This would have seen an additional two extra care housing schemes within the borough. The number of schemes will therefore stay at six. This decision was made by the Cabinet Member for Social Care and Safeguarding and the Cabinet Member for Housing, Planning and Transport under delegated powers.

Pay to Stay Policy

2.34 Pay to Stay is the name of a government policy whereby Council tenants earning £30,000 or more (£40,000 in London) will have to pay "market or near market rents". The measure is due to come into effect in April 2017 with the Institute for Fiscal Studies estimating that the policy will impact upon 10% of social housing tenants. Previously Councils had the option of charging near market rates to those on incomes of £60,000 or more.

2.35 The Council has assessed the likely impact of this policy and has confirmed that there will be only a limited impact on its projected HRA balances, primarily due to the increased administration burden of enforcing the policy. Any additional rental income generated by local authorities due to the charging of market rent in place of social rent will not benefit Councils but will need to be transferred to Central Government.

Sale of High Value Council Homes

2.36 Another government policy is the proposed imposition on Councils to sell off high value Council homes once that property becomes vacant. The aim of the policy is that Councils could sell stock in their higher value areas and use the capital receipt to build more houses in lower value areas.

2.37 The policy looks to define a high value Council home in relation to average values in each region. If the property value exceeds the thresholds set out in the table the table below, it would be deemed to be high value.

North West Region – High Value Thresholds

Property Type	£
1 Bedroom	90,000
2 Bedroom	130,000
3 Bedroom	160,000
4 Bedroom	270,000
5+ Bedroom	430,000

2.38 It is assumed that the policy will have minimal impact on the Council as the current stock holdings either all fall below the Region's threshold or are deemed exempt from the policy.

Strategic HRA estimates 2017/18 to 2020/21

2.39 The projected forecasts for 2017/18 to 2020/21 are attached at Appendix D. As per 2.1, the HRA now only includes properties which are contained within the two PFI contracts. It is expected that the HRA balance will be £10.249m at the end of 2017/18, £9.836m at the end of 2018/19, £9.429m at the end of 2019/20 and making further use of HRA balances in 2020/21, resulting in a projected closing balance of £8.684m.

2.40 It should be noted that in both PFI schemes a proportion of the unitary charge is indexed with reference to inflation (RPI). Nonetheless, the HRA remains in a stable financial position going forward.

2.41 There is the potential for HRA balances being used to implement further supported accommodation proposals and also to support social housing developments included within town centre regeneration schemes.

2.42 At the Cabinet meeting of January 25th 2016, approval was granted for the regeneration at Princes Gate. As part of this regeneration works there is a commitment from HRA balances of £2.433m in 2016/17 and a further £4.867m in 2017/18, resulting in a total HRA contribution of £7.3m. This revenue contribution to capital outlay (RCCO) has been built into the HRA Budget Plan figures and is contained within the rents, rates and other charges heading in both 2016/17 and 2017/18.

3 **Options/Alternatives**

3.1 In order that the Council complies with legislative requirements, it must consider and approve a HRA budget for 2016/17.

3.2 Within the Summer Budget Announcement of July 2015, the Government announced legislation to impose a 1% per annum social rent reduction for 4 years. All Oldham housing stock will be exempt from this decrease and an increase will be applied in accordance with current guidance.

3.3 Should the Council wish to move away from the established practice of following Government guidelines, then two potential scenarios have been assessed by way of example, the:

- proposed rent increase of £0.71 per week is reduced to £0.35
- proposed rent increase is removed altogether.

The loss to the HRA in terms of rental income would be:

Average Increase in Rent	£0.35 £k	£0.00 £k
Impact in 2016/17	34	69
Impact over life of Business Plan	1,228	2,456

3.4 Clearly, whilst the impact in 2016/17 is not huge, the cumulative impact of sustained income losses of income would have a lasting impact on the long term financial strength of the HRA and potentially its ability to meet its current and future financial commitments.

4 **Preferred Option**

4.1 The preferred option is that the recommendations of the report are approved.

5 **Consultation**

5.1 Consultation has taken place with Executive Members, Service Providers and Tenants throughout the year. Where schemes have had a significant impact on a particular group of tenants or subsequently had a material impact on the HRA budget such as Extra Care Housing, the Council has endeavoured to undertake a thorough consultation with tenants. In addition, the Council has implemented additional, more regular drop-in sessions such as Court Voices where tenants are encouraged to raise any concerns and allowing a forum for further consultation. A key element of the consultation process was the consideration of the HRA budget by the Overview & Scrutiny Performance & Value for Money Select Committee at its meeting on the 21st January 2016. The HRA budget was also presented to Cabinet on 11th February 2016 and recommendations were approved.

5.2 It should be noted that the Overview and Scrutiny Performance Value for Money Committee meeting predated the exempting of all PFI properties from the social housing rent reduction policy. In addition the meeting also predated approval by Cabinet of the report on Princes Gate both of which have an impact on HRA balances, and are now included in this report.

6 **Financial Implications**

6.1 Proposals set out in this report are based upon the best assessment of the likely financial position of the Council's HRA for 2015/16 to 2020/21. Prudent assessments have been included within these estimates and the financial impact of any variances is identified in the Risk Assessments undertaken.

6.2 At this time, the HRA balances are deemed sufficient to meet its known obligations for the foreseeable future. (John Hoskins)

7 **Legal Services Comments**

7.1 It is statutory requirement that the Authority set a balanced HRA budget, having due regard to an appropriate level of working balances and giving due consideration to the risks involved. (Bill Balmer)

8. **Co-operative Agenda**

8.1 The HRA budget has been prepared so that resources are utilised to support the aims, objectives and co-operative ethos of the Council.

9 **Human Resources Comments**

9.1 None

10 **Risk Assessments**

10.1 The HRA budget set out in this report is based on the best assessment of the likely financial position of the HRA in 2015/16 and 2016/17. Attached at Appendix C is a risk register as at February 2016. Forecasting remains challenging and there are a number of key issues that, should they change, affect the proposed budget. For example, there would be a risk to income if the void level was higher than the 2016/17 budgeted levels. The impact upon income is that a 1% increase in voids across both PFI 2 and PFI 4 properties costs approximately £78k in a full year.

11 **IT Implications**

11.1 None

12 **Property Implications**

12.1 None

13 **Procurement Implications**

13.1 None

14 **Environmental and Health & Safety Implications**

14.1 There are non-specific at this stage

15 **Equality, community cohesion and crime implications**

15.1 Continuation of a robust consultation process open to all tenants and tenants representatives will ensure maximum engagement and provide the opportunity for the views of all groups to be considered in setting the HRA budget and the provision of services to tenants.

16 **Equality Impact Assessment Completed?**

16.1 Not applicable

17 **Key Decision**

17.1 Yes

18 **Key Decision Reference**

18.1 CFHR 25 15

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are attached as Appendices A to E
Officer Name: John Hoskins, David Leach & Anne Ryans
Contact No: 0161 770 1323/6679/4902

20 **Appendices**

20.1	Appendix A	Revised HRA Income & Expenditure Account 2015/16
	Appendix B	Original HRA Income & Expenditure Account 2016/17
	Appendix C	2016/17 – 2020/21 Risk Assessment as at February 2016
	Appendix D	HRA Income & Expenditure Account 2016/17 to 2020/21 Strategic Forecasts

Appendix A

Revised HRA Income & Expenditure Account 2015/16	Original Budget	Latest Forecast	Variance to Budget
	£k	£k	£k
Income			
Dwellings rents (gross)	(7,510)	(7,425)	85
Non Dwelling Rents	(36)	(77)	(41)
Charges for services and facilities	(1,464)	(1,240)	224
Contributions towards Expenditure	(745)	(42)	703
PFI Grant	(18,786)	(18,786)	0
Total Income	**(28,541)**	**(27,570)**	**971**
Expenditure			
Unitary Charge Payments (PFI2 and PFI4)	22,395	22,335	(60)
Supervision & Management	436	435	(1)
Depreciation and impairment of Fixed Assets	146	146	0
Rent, rates and other charges	4,175	3,930	(245)
Debt management costs	145	145	0
Total Expenditure	**27,297**	**26,991**	**(306)**
Net Cost of HRA Services	**(1,244)**	**(579)**	**665**
Interest payable and other similar charges	0	0	0
Interest and Investment Income	(186)	(189)	(3)
(Surplus)/Deficit for the year on HRA Services	**(1,430)**	**(768)**	**662**
HRA Balances brought forward	(16,062)	(16,374)	(312)
HRA Balances carried forward	**(17,492)**	**(17,142)**	**350**

Analysis of HRA Balances carried forward	£k	£k	£k
Balances specifically earmarked for PFI 2 scheme	(14,834)	(15,562)	(728)
Balances specifically earmarked for PFI 4 scheme	(2,658)	(1,580)	1,078
HRA Balances carried forward	**(17,492)**	**(17,142)**	**350**

Note – The variance against Contribution towards Expenditure was as a result of a change to the contract relating to the collection of water rates. When the original budget was set, the HRA collected all water rates from tenants and passed them to the supplier, however in March 2015 a decision was taken for the supplier to bill tenants direct. This resulted in a large reduction to the levels of income expected.

Appendix B

Proposed HRA Budget 2016/17

Original HRA Income & Expenditure Account 2016/17	Original Budget
	£k
Income	
Dwellings rents (gross)	(7,716)
Non Dwelling Rents	(77)
Charges for services and facilities	(1,392)
Contributions towards Expenditure	(16)
PFI Grant	(18,786)
Total Income	(27,987)
Expenditure	
Unitary Charge Payments (PFI2 and PFI4)	22,772
Supervision & Management	438
Depreciation and impairment of Fixed Assets	146
Rent, rates and other charges	6,545
Total Expenditure	**29,901**
Net Cost of HRA Services	1,914
Interest payable and other similar charges	0
Interest and Investment Income	(219)
(Surplus)/Deficit for the year on HRA Services	1,695
HRA Balances brought forward	(17,142)
HRA Balances carried forward	**(15,447)**

Analysis of HRA Balances carried forward	**£**
Balances specifically earmarked for PFI 2 scheme	(12,035)
Balances specifically earmarked for PFI 4 scheme	(3,412)
HRA Balances carried forward	**(15,447)**

Appendix C

HOUSING REVENUE ACCOUNT

2016/17 – 2020/21 RISK ASSESSMENT AS AT FEBRUARY 2016

RISK EVENT/ DESCRIPTION	LIKELIHOOD	IMPACT	RESERVE POSITION
1. The void level assumed on dwelling properties increases.	The budget has been set assuming a 2016/17 void rate of 2% on PFI 4 properties and a 3% void rate on PFI 2 properties. These are believed to be realistic estimates at this time.	A change in the void percentage of 1% (approximately 21 properties) has the impact, in a full year, of £78k.	The loss of income arising from movement in void levels would need to be met from HRA balances. The HRA has sufficient balances to absorb the movement on voids, again it should be noted that the lost income is likely to be offset by reduced Unitary Charge payments.
2. Impact of changes in rental income collection rates.	The collection of rental income is a key performance indicator and one in which the PFI providers have performed at the highest level. Historically It has been considered a low risk that this collection rate will deteriorate to a level to the point where it has a significant impact on the revenue budget. Welfare Reform has the potential to impact on the collection on rent.	Rental income is accounted for in the HRA on a rents receivable not received basis. Continuous monitoring of the levels of uncollected income will help inform the provisions position needed for bad debts.	The current HRA bad debt provision is considered to be prudent for the levels of uncollected income currently being held/forecast within the HRA. Balances are considered sufficient to deal with any impending changes to the benefits system

RISK EVENT/ DESCRIPTION	LIKELIHOOD	IMPACT	RESERVE POSITION
3. Service Charge Recovery	2016/17 will be the third year that service charges will be charged to PFI 2 tenants. Implementation is to be phased in over 5 years i.e. 60% recovery in 16/17, 80% recovery in 17/18. These service charges are eligible for Housing Benefits so it is of relatively low risk that the majority of service charge costs will be recovered. Self-payers however may incur some level of difficulty however the percentage of self-payers as part of the overall tenancy profile is relatively small	In 2016/17 each tenant will need to pay on average £452 towards service charges. Costs of initiating and maintaining recovery processes will also need to be considered.	Each tenant failing to pay their service charge will have a detrimental effect on the reserve, although given the close correlation to Housing Benefit, the levels of collection are estimated to be high.
4. Extra Care Housing (ECH) Charge Recovery	2016/17 will be the third year that ECH charges will be charged to 4 group schemes within PFI 2 and the second year for tenants in Phase 2a. Implementation is to be phased in over 3 years i.e. 33% recovery in the first year, 66% recovery in the second and full recovery the years following. ECH charges are eligible for Housing Benefits so it is of relatively low risk that the majority of ECH charge costs will be recovered. Self-payers however may incur some level of difficulty however the percentage of self-payers as part of the overall tenancy profile is relatively small and the transitional phasing of these costs should help.	In 2016/17 each qualifying tenant i.e. a tenant within one of the six approved Extra Care Housing Group Schemes, will need to pay on average £550 towards ECH charges. Costs of chasing recovery will also need to be considered.	Each tenant failing to pay their ECH charge will have a detrimental effect on the reserve, although given the close correlation to Housing Benefit, the levels of collection are estimated to be high.

RISK EVENT/ DESCRIPTION	LIKELIHOOD	IMPACT	RESERVE POSITION
5.Rent Restructuring	In October 2013 the DCLG approved a move to CPI plus 1% as the basis of the annual rental increase calculation as opposed to previously using the inflator of RPI plus 0.5%. The largest inflationary cost increase to the HRA is the uplift in the unitary charge which is linked to RPI. The move to different measures of inflation potentially being applied to income and expenditure, may introduce increased risk exposure to an inflationary pressure in the event that CPI+1% falls below RPI+0.5%.	As of September 2015, the month used for all rent calculations, there was a -0.4% difference in the two inflators. The business plan has been modelled on this basis.	The movement in the respective indices will be monitored on an on-going basis, it is however considered that there is sufficient tolerance within the predicted cumulative HRA balances to manage this risk

Appendix D

Proposed HRA Budget 2016/17 – 2020/21

HRA Income & Expenditure Account 2017/18 to 2020/21 Strategic Forecasts	Original 2016/2017	Original 2017/2018	Original 2018/2019	Original 2019/2020	Original 2020/2021
	£k	£k	£k	£k	£k
Income					
Dwellings rents (gross)	(7,716)	(7,871)	(8,028)	(8,359)	(8,352)
Non Dwelling Rents	(77)	(78)	(79)	(80)	(81)
Charges for services and facilities	(1,392)	(915)	(998)	(1,005)	(1,013)
Contributions towards Expenditure	(16)	(44)	(43)	(43)	(43)
HRA Subsidy ~ PFI Credits	(18,786)	(18,786)	(18,786)	(18,786)	(18,786)
Total Income	(27,987)	(27,694)	(27,934)	(28,273)	(28,275)
Expenditure					
Unitary Charge Payments (PFI2 and PFI4)	22,772	23,091	23,414	23,745	24,081
Supervision & Management	438	440	443	445	448
Depreciation and Impairment of Fixed Assets	146	2,531	2,531	2,531	2,531
Rent, rates and other charges	6,545	7,074	2,208	2,208	2,209
Total Expenditure	**29,901**	**33,136**	**28,596**	**28,929**	**29,269**
Net Cost of HRA Services	**1,964**	**5,442**	**662**	**656**	**994**
Interest payable and other similar charges	**0**	0	0	0	0
Interest and Investment Income	(219)	(244)	(249)	(249)	(249)
(Surplus)/Deficit for the year on HRA Services	**1,695**	**5,198**	**413**	**407**	**745**
HRA Balances brought forward	(17,142)	(15,447)	(10,249)	(9,836)	(9,429)
HRA Balances carried forward	**(15,447)**	**(10,249)**	**(9,836)**	**(9,429)**	**(8,684)**
Analysis of HRA Balances carried forward					
Balances specifically earmarked for PFI 2 scheme	(12,035)	(6,757)	(5,110)	(3,815)	(2,608)
Balances specifically earmarked for PFI 4 scheme	(3,412)	(3,492)	(4,726)	(5,614)	(6,076)
HRA Balances carried forward	**(15,447)**	**(10,249)**	**(9,836)**	**(9,429)**	**(8,684)**

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