Report to Council

Housing Revenue Account Estimates for 2016/17 to 2020/21

Portfolio Holder:
Joint Report of the Deputy Leader and Cabinet Member (Finance and HR), Councillor Abdul Jabbar and Cabinet Member (Housing, Planning and Transport), Councillor Barbara Brownridge

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Reason for Decision

The report sets out the latest Housing Revenue Account (HRA) outturn estimate for 2016/17, the detailed budget for 2017/18 and strategic estimates for the three years 2018/19 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 2017.

Executive Summary

The report sets out the HRA forecast outturn for 2016/17 and the proposed 2017/18 original budget. The opportunity is also taken to present the provisional strategic budgets for 2018/19 through to 2020/21

After taking all relevant issues into account, the projected financial position for 2016/17 is estimated to be a £2.111m positive variance when compared to the original budget forecast for 2016/17 approved by Council on 24 February 2016. The majority of this variance can be attributed to the re-profiling of HRA funded capital schemes into later years due to revisions to planned spending profiles.

The financial position for 2017/18 shows an estimated HRA closing balance of £16.944m which is considered to be sufficient to meet future operational commitments and the potential financial pressures identified in the risk assessment.

The 2017/18 position has been presented after allowing for an increase in rent of 2%.

Members will recall that the Government has already advised that PFI properties will be exempt from Central Government's 1% Social Rent Reduction Programme. As all Oldham housing stock is contained within two PFI schemes the 2017/18 budget will follow historic rent setting guidance of CPI plus 1%, resulting in an increase of 2% (CPI is taken as at September 2016).

The proposed HRA budget report was presented for consideration by the Overview and Scrutiny Performance and Value for Money Select Committee on 26 January 2017. The Select Committee was content to commend the report to Cabinet for approval. Cabinet duly considered and approved the report at its meeting on 20 February 2017 and commended the report to Council.

Recommendations

That Council approves the:

1. Forecast HRA outturn for 2016/17 (as per Appendix A)
2. Proposed HRA budget for 2017/18 (as per Appendix B)
3. Strategic estimates for 2018/19 to 2020/21 (as per Appendix D)
4. Proposed increase to dwelling rents for all properties of 2%
5. Proposed increase to non-dwelling rents of 2%
6. Proposed increase to PFI 2 service charges to continue previously approved transitional arrangements leading to full cost recovery.
7. Proposed increase to PFI 4 service charges to be based on the actual charges incurred.

Housing Revenue Account Estimates 2016/17 to 2020/21

1 Background

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. As part of this process, the HRA Budget report for 2017/18 was presented to the Overview and Scrutiny Performance and Value for Money Select Committee (PVFM) on 26 January 2017. The Select Committee accepted the recommendations in the Budget report and commended the report to Cabinet. Cabinet duly considered and approved the report at its meeting on 20 February 2017 and commended the report to Council.

2 Current Position

Housing Stock

2.1 The Council's housing stock currently comprises 2,066 properties with all properties now being managed and maintained within two Private Finance Initiative (PFI) schemes. In addition, there are formally approved works for the Council to build out a remaining plot on Primrose Bank - Phase 1, resulting in potentially a further 17 additional new builds to the HRA estate.

2.2 It is intended that these additional properties will be completed by summer 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. Currently 13 deposits have been received with a view to purchase properties. 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

2.3 The PFI 2 Contract between the Council and Housing 21 was signed in 2006 to provide 1,431 (plus one additional property subsequently added in 2016) 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 an annual unitary charge and funded by the annual PFI grant alongside rental income received.

PFI 4 Gateways to Oldham

2.4 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 utilised private finance to fund the construction works and to manage and maintain the properties for the duration of the contract through to October 2036. Construction was finally 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.

The Self-Financing Housing Revenue Account

2.5 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.

2.6 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.

2.7 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.

2.8 As Oldham's entire housing stock is contained within two PFI schemes and therefore within the unitary charge paid, there already exists an allocation of funding for ongoing repairs and maintenance, Oldham has assumed that this directive does not apply to its housing stock. Discussions have taken place with Central Government and External Audit on this issue. Whilst official confirmation is yet to be received, guidance and advice to date suggests that the Council has interpreted the policy correctly. As a result the HRA Business Plan has been calculated assuming that all future repairs and maintenance will be catered for within the unitary charge payments.

Rent Restructuring

2.9 Rent restructuring (convergence) was originally 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.

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

2.11 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 April 2015). These proposals were formalised in the Government document, "Direction on the Rent Standard 2014" published 23 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 had led to increased rate volatility. The 2016/17 HRA budget and future years' financial forecasts have been prepared reflecting current Government policy.

2.12 In the Chancellor's Summer Budget announcement in July 2015 and the subsequent Welfare Reform and Work Act, 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. However an exemption to this was issued for properties covered by PFI contracts meaning that Oldham has continued to set rents based on the Government guidance set out in paragraph 2.11.

2.13 The level of rents recommended for approval for 2017/18 and included in the 2017/18 budget projections follows the current Government guidance. The 2017/18 annual rents proposed for all HRA tenants will therefore see rents increase by 2% (based on CPI as at September 2016 of 1% plus 1%).

2.14 Based on Government guidance for rent increases, it is estimated that the average rent increase from April 2017 will be £1.60 per week (from £80.02. to £81.62 on a 48 week basis).

The Revised HRA Budget 2016/17

2.15 The 2016/17 estimated outturn is attached at Appendix A and shows an estimated year end working balance of £17.508m, £2.111m higher than estimated figures presented to Budget Council on 24 February 2016. The majority of this variance can be attributed to the re-profiling of HRA funded capital schemes into later years.

2.16 The composition of the balance is summarised below:

Analysis of HRA Balances 2016-17	Original Budget £000	Revised Budget £000	Variance £000
HRA Balances b/fwd	(17,142)	(17,284)	(142)
(Surplus)/Deficit for the year on HRA Services	1,745	(224)	(1,969)
HRA Balances c/fwd	**(15,397)**	**(17,508)**	**(2,111)**

The HRA Budget 2017/18

2.17 The proposed HRA budget for 2017/18 is attached at Appendix B including all income and expenditure due to be funded from HRA Balances.

2.18 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.

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

1) Average rents are 2.0% higher than for 2016/17 for all HRA tenants;
2) Void levels have been assumed at 2% per annum on PFI 4 properties and at 3% per annum on PFI 2 properties. PFI 2 void percentages have historically been higher as a result of 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 2017/18;
4) Service Charges and Extra Care Housing charges are continued/applied from April 2017 in line with previous approval.

2.20 The estimated 2017/18 HRA closing balance of £16.944m is considered to be sufficient to meet future operational commitments and the potential financial pressures identified in the risk assessment. Appendix B presents the projected 2017/18 HRA budget based on the currently approved position.

2.21 The estimated HRA budget for 2017/18 to 2020/21 is detailed at Appendix D. Rent, rates and other charges are significantly higher in 2017/18 and 2018/19 due to several large capital projects being funded in these years. These include the Supported Housing for Adults with a Learning Disability and/or complex behaviour project (SHALD) as well as the Social Housing element of the Prince's Gate development.

Dwelling Rent, Non-Dwelling Rents and Services Charges Increases 2017/2018

2.22 The proposed 2017/18 HRA budget is based on dwelling rents increasing in line with current rent setting Government guidance as outlined in paragraph 2.11 above. Non-Dwelling rents will be increased in line with individual agreements. It is 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 2017/18, following the widespread consultation in October 2013. The Cabinet meeting of 16 December 2013 approved service charging with a phased five year implementation with increases on a straight line 20% basis. PFI 4 service charges will be based on actual costs incurred.

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)

2.26 Four ECH schemes (Trinity House, Aster House, Charles Morris House and Tandle View) have now completed their phased 3 year charging period for Concierge Services. It is therefore proposed that the weekly charge is now increased to that of full recovery calculated at £19.40 per week for 2017/18.

2.27 A further two schemes, Old Mill House and Hopwood Court were upgraded to ECH in autumn 2015. These schemes were subject to the same 3 year phasing as the four ECH schemes above. The proposed charge is £15.67 per week in 2017/18 with the recommendation that it will increase to full recovery in 2018/19.

Pay to Stay Policy

2.28 Pay to Stay was a Government policy whereby Local Authority tenants with taxable incomes of £31,000 or more (£40,000 or more in London) were expected to move from social rents to having to pay "market or near market rents". The measure was originally planned to come into effect in April 2017 with the Institute for Fiscal Studies estimating that the policy would 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.

2.29 Any additional rental income generated by local authorities due to the charging of market rent in place of social rent would not have benefitted Councils but was expected to be transferred to Central Government less an amount that the Council could use to cover the administration costs.

2.30 However, as announced by DCLG on 21 November 2016, the Government has decided not to implement Pay to Stay. The Government will work to deliver its commitment to ensure that social housing is occupied by those who need it most through other measures.

2.31 The policy is still available to authorities on a voluntary basis. However Oldham's current stance is that the benefits of the Pay to Stay policy are not deemed significant enough to introduce this policy.

Sale of High Value Council Homes

2.32 Another Government policy is the proposed imposition on Councils to sell high value Council homes once a property becomes vacant. The aim of the policy is to encourage Councils to sell stock in their higher value areas and use the capital receipt to build more houses in lower value areas.

2.33 It is suggested that high value houses are those which fall above the thresholds set out in the table below.

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

2.34 However, it is now assumed that the Government may implement the policy by way of a charge to the Council based on a formula calculated on national data, rather than the actual number of sales made in each authority.

2.35 More recently, the Government has indicated that it accepts Councils will need more time to prepare for the implementation of the policy. As a result of this lead in time the Government has chosen to delay implementation of the policy which had originally been planned to start in April 2017.

Strategic HRA Estimates 2018/19 to 2020/21

2.36 The projected forecasts for 2018/19 to 2020/21 are attached at Appendix D. As per paragraph 2.1, the HRA only includes properties which are managed under the two PFI contracts. It is expected that the HRA balance will be £11.502m at the end of 2018/19, £13.701m at the end of 2019/20, and £15.701m at the end of 2020/21.

2.37 It should be noted that in both PFI schemes a proportion of the unitary charge is indexed with reference to inflation based on the Retail Prices Index (RPI).

Local Housing Allowance (LHA)

2.38 As part of the strategic estimates for future years, consideration should be given to the Local Housing Allowance (LHA) and the capping of Housing Benefits to this level for all tenants from April 2019.

2.39 Detailed guidance has yet to be issued but it is assumed that no Housing Benefit will be paid on rents and service charges falling above the set level.

2.40 Currently general need tenants who under-occupy their property (the bedroom tax) or only qualify for the shared accommodation rate due to their age are asked to contribute the difference in the rent and benefits received.

2.41 The issue will be particularly pertinent with supported housing from April 2019 where traditionally service charges and rents are higher than general needs. The Government has proposed making a ring-fenced allocation to Local Authorities to help fund the shortfall on housing benefits to help sustain the supported housing sector. However it is as yet unknown as to the amount of funds in the national pool and whether any restrictions may be applied. This has been noted in the risk register at Appendix C.

3 Options/Alternatives

3.1 In order that the Council complies with legislative requirements, it must consider and approve a HRA budget for 2017/18.

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 Government 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 2% is changed to 1%
- proposed rent increase is removed altogether.

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

Average Increase in Rent	1% £000	0% £000
Impact in 2017/18	77	154
Impact over life of Business Plan	2,598	5,196

3.4 Clearly, whilst the impact in 2017/18 is not significant, the cumulative impact of sustained 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 dwelling and non-dwelling rent increases of 2% are approved together with other recommendations of the report as listed in the summary.

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 historically the introduction of 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 this consultation process is the consideration of the HRA budget by the Overview and Scrutiny Performance and Value for Money Select Committee which took place on 26 January 2017. The Select Committee was content to commend the report to Cabinet for approval. Cabinet duly considered and approved the report at its meeting on 20 February 2017 and commended the report to Council.

6 Financial Implications

6.1 The proposals set out in this report are based upon the best assessment of the likely financial position of the Council's HRA for 2016/17 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 known obligations for the foreseeable future. (John Hoskins)

7 Legal Services Comments

7.1 It is a 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. (Colin Brittain)

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 2016/17 and 2017/18. Attached at Appendix C is a risk register as at January 2017. 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 2017/18 budgeted levels. The impact upon income is that a 1% increase in voids across both PFI 2 and PFI 4 properties costs approximately £0.077m in a full financial year and will expose the Council to the risk of future censure by its external auditors.

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 Key Decision

16.1 Yes

17 Key Decision Reference

17.1 CFHR-18-16

18 Background Papers

18.1 The following is a list of the 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 that Act.

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

19 Appendices

Appendix A	Revised HRA Income & Expenditure Account 2016/17.
Appendix B	Original HRA Income & Expenditure Account 2017/18.
Appendix C	2017/18 – 2021/22 Risk Assessment as at January 2017.
Appendix D	HRA Income & Expenditure Account 2017/18 to 2020/21 Strategic Forecasts.

Revised HRA Income & Expenditure Account 2016/17 **Appendix A**

Revised HRA Income & Expenditure Account 2016/17	Original Budget	Latest Forecast	Variance to Budget
	£000	£000	£000
Income			
Dwellings Rents (gross)	(7,668)	(7,716)	(48)
Non Dwelling Rents	(77)	(39)	38
Charges for Services and Facilities	(1,392)	(1,311)	81
Contributions towards Expenditure	(16)	(75)	(59)
PFI Grant	(18,786)	(18,786)	-
Total Income	(27,939)	(27,927)	12
Expenditure			
Unitary Charge Payments (PFI2 and PFI4)	22,774	22,679	(95)
Supervision & Management	438	446	8
Depreciation and Impairment of Fixed Assets	146	146	-
Rent, Rates and Other Charges	6,545	4,651	(1,894)
Total Expenditure	**29,903**	**27,922**	**(1,981)**
Net Cost of HRA Services	**1,964**	**(5)**	**(1,969)**
Interest and Investment Income	(219)	(219)	-
(Surplus)/Deficit for the year on HRA Services	1,745	(224)	(1,969)
HRA Balances brought forward	(17,142)	(17,284)	(142)
HRA Balances carried forward	**(15,397)**	**(17,508)**	**(2,111)**

Analysis of HRA Balances carried forward			
Balances specifically earmarked for PFI 2 scheme	(12,026)	(13,319)	(1,293)
Balances specifically earmarked for PFI 4 scheme	(3,371)	(4,189)	(818)
HRA Balances carried forward	**(15,397)**	**(17,508)**	**(2,111)**

Original HRA Income & Expenditure Account 2017/18 **Appendix B**

Original HRA Income & Expenditure Account 2017/18	Original Budget
	£000
Income	
Dwellings Rents (gross)	(7,871)
Non Dwelling Rents	(39)
Charges for Services and Facilities	(988)
Contributions towards Expenditure	(43)
PFI Grant	(18,786)
Total Income	**(27,727)**
Expenditure	
Unitary Charge Payments (PFI2 and PFI4)	22,776
Supervision & Management	457
Depreciation and Impairment of Fixed Assets	146
Rent, Rates and Other Charges	5,131
Total Expenditure	**28,510**
Net Cost of HRA Services	**783**
Interest and Investment Income	(219)
(Surplus)/Deficit for the year on HRA Services	564
HRA Balances brought forward	(17,508)
HRA Balances carried forward	**(16,944)**

Analysis of HRA Balances carried forward	**£000**
Balances specifically earmarked for PFI 2 scheme	(10,677)
Balances specifically earmarked for PFI 4 scheme	(6,267)
HRA Balances carried forward	**(16,944)**

Appendix C

HOUSING REVENUE ACCOUNT

2017/18 – 2020/21 RISK ASSESSMENT AS AT FEBRUARY 2017

RISK EVENT/ DESCRIPTION	LIKELIHOOD	IMPACT	RESERVE POSITION
1. The void level assumed on dwelling properties increases.	The budget has been set assuming a 2017/18 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; however the full impact on welfare reform from a limit on Housing Benefits could force more tenants out of social housing and increase void levels.	A change in the void percentage of 1% (approximately 21 properties) has the impact, in a full year, of £0.077m.	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 small movements on voids.
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
3. Service Charge Recovery	The financial year 2017/18 will be the fourth year that service charges will be charged to PFI 2 tenants. Implementation is to be phased in over 5 years i.e. 80% recovery in 2017/18, 100% recovery in 2018/19. These service charges are currently eligible for Housing Benefits so it is relatively low risk that the majority of service charge costs will be recovered. Self-payers may incur some level of difficulty however the percentage of self-payers as part of the overall tenancy profile is relatively small. After the implementation of the LHA cap there is a	In 2017/18 each tenant will need to pay on average £580 pa 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.

RISK EVENT/ DESCRIPTION	LIKELIHOOD	IMPACT	RESERVE POSITION
	possibility that the ring fenced pot issued to cover any shortfall in Housing Benefit will not be sufficient.		
4. Extra Care Housing (ECH) Charge Recovery	The financial year 2017/18 is the first year all tenants will be paying the full cost of concierge services after the transitional charging period. 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 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. After the implementation of the LHA cap there is a possibility that the ring fenced pot issued to cover any shortfall in Housing Benefit will not be sufficient.	In 2017/18 each qualifying tenant i.e. a tenant within one of the six approved Extra Care Housing Group Schemes, will need to pay on average £875 pa 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.
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 2016, the month used for all rent calculations, there was a -1.0% 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
6. Change in Guidance on the charging of depreciation	The transitional period for how the HRA accounts for depreciation comes to an end on 31 March 2017 so from 2017/18 onwards there is a requirement to set aside an amount equal to depreciation into the Major Repairs Reserves (MRR) to cover repairs and maintenance on our stock. However all stock of approx. 2,000	The current amount that is anticipated that would need to be set aside from 2017/18 is approx. £2.4m per annum. This would put the HRA in deficit by 2026, but at the same time create a MRR in excess of £20m	Continuing advice is being sort from DCLG, External Auditors and other stock owning Authorities. The position will be reviewed once the guidance has been issued.

RISK EVENT/ DESCRIPTION	LIKELIHOOD	IMPACT	RESERVE POSITION
	properties are covered under PFI contracts whereby the Unitary Charge paid has an element built in for repairs and maintenance (R&M). This will mean that if there is a transfer into the MRR we will accumulate a high level of reserves that we do not require as all the R&M has already been paid for. The Council is currently waiting for DCLG guidance but the advice has been that exemptions will be issued, We are also advised that any change from the assumed approach would not become a material issue in the auditing of the accounts for several years.		

HRA Income & Expenditure Account 2017/18 to 2020/21 Strategic Forecasts **Appendix D**

HRA Income & Expenditure Account 2017/18 to 2020/21 Strategic Forecasts	Original 2017/18	Original 2018/19	Original 2019/20	Original 2020/21
	£000	**£000**	**£000**	**£000**
Income				
Dwellings rents (gross)	(7,871)	(8,028)	(8,188)	(8,352)
Non Dwelling Rents	(39)	(40)	(40)	(41)
Charges for services and facilities	(988)	(1,092)	(1,103)	(1,114)
Contributions towards Expenditure	(43)	(85)	(249)	(254)
HRA Subsidy ~ PFI Credits	(18,786)	(18,786)	(18,786)	(18,786)
Total Income	**(27,727)**	(28,031)	(28,366)	(28,547)
Expenditure				
Unitary Charge Payments (PFI2 and PFI4)	22,776	23,064	23,354	23,701
Supervision & Management	457	461	466	470
Depreciation and Impairment of Fixed Assets	146	146	146	146
Rent, rates and other charges	5,131	10,021	2,420	2,449
Total Expenditure	**28,510**	**33,692**	**26,386**	**26,766**
Net Cost of HRA Services	**783**	**5,661**	**(1,980)**	**(1,781)**
Interest payable and other similar charges				
Interest and Investment Income	(219)	(219)	(219)	(219)
(Surplus)/Deficit for the year on HRA Services	**564**	**5,442**	**(2,199)**	**(2,000)**
HRA Balances brought forward	(17,508)	(16,944)	(11,502)	(13,701)
HRA Balances carried forward	**(16,944)**	**(11,502)**	**(13,701)**	**(15,701)**
Analysis of HRA Balances carried forward				
Balances specifically earmarked for PFI 2 scheme	(10,677)	(5,615)	(5,462)	(5,226)
Balances specifically earmarked for PFI 4 scheme	(6,267)	(5,887)	(8,239)	(10,475)
HRA Balances carried forward	**(16,944)**	**(11,502)**	**(13,701)**	**(15,701)**