REPORT FOR DECISION

Bury COUNCIL

Agenda Item	

MEETING:	**OVERVIEW AND SCRUTINY COMMITTEE CABINET COUNCIL**
DATE:	**11 FEBRUARY 2016 24 FEBRUARY 2016 24 FEBRUARY 2016**
SUBJECT:	**DRAFT HOUSING REVENUE ACCOUNT 2016/17**
REPORT FROM:	**DEPUTY LEADER OF THE COUNCIL AND CABINET MEMBER FOR FINANCE AND HOUSING**
CONTACT OFFICER:	**STEPHEN KENYON, INTERIM EXECUTIVE DIRECTOR OF RESOURCES AND REGULATION**
TYPE OF DECISION:	**COUNCIL**
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain
SUMMARY:	The report details the proposed Housing Revenue Account for 2016/17 and proposals for Dwelling and Garage rents, Sheltered Support, Management, Amenities and Heating charges, Furnished Tenancy charges and Fernhill Caravan site tenancy charges.
OPTIONS & RECOMMENDED OPTION	The report is prepared on the basis of the Government's requirement for a decrease in dwelling rents of 1% for 2016/17 for General Needs properties. Members are reminded that any decrease more than this level would result in a reduction in rental income which will impact on future years and could jeopardise the financial viability of the HRA and the sustainability of the business plan. Cabinet is recommended to note the report and request that the Council should consider all matters relating to the Housing Revenue Account 2016/17, the increase in

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	Council House and garage rents and changes to other charges. Council is recommended to: (a) approve the Housing Revenue Account estimates set out in Appendix 1 subject to potential amendment to reflect the agreed Management Fee payable to Six Town Housing. (b) decrease the Rents for dwellings other than Sheltered and Extra Care by 1% from the first rent week in April. (c) increase the Rents for Sheltered and Extra Care dwellings by 0.9% from the first rent week in April. (d) adopt the policy of reletting dwellings at Target rents with effect from the first rent week in April. (e) increase Garage rents by 0.9% from the first rent week in April. (f) increase Sheltered Management and Amenity Charges by 0.9% from the first rent week in April. (g) reduce Sheltered heating charges by 10% from the first rent week in April. (h) approve that Sheltered support and Furnished Tenancy charges remain unchanged from the first rent week in April. (i) increase tenancy charges at the Fernhill Caravan Site by 0.9% from the first rent week in April.

IMPLICATIONS: **Corporate Aims/Policy Framework:**	The proposals accord with the Policy Framework
Statement by Section 151 Officer:	Financial and risk implications are detailed in the report.
Statement by Executive Director of Resources:	The report fully details the Housing Revenue Account for 2016/17.
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Are there any legal implications?	No
Staffing/ICT/Property:	There are no direct staffing, ICT or property implications arising from this report although the HRA budget impacts on these areas.
Wards Affected:	All
Scrutiny Interest:	Overview and Scrutiny Committee

TRACKING/PROCESS INTERIM DIRECTOR: STEPHEN KENYON

Chief Executive/ Management Board	Executive Member/Chair	Ward Members	Partners
	Yes		
Scrutiny Committee	Cabinet	Committee	Council
11 February 2016	24 February 2016		24 February 2016

1.0 INTRODUCTION

1.1 The Housing Revenue Account (HRA) is primarily a 'landlord account', recording revenue expenditure and income relating to the authority's own housing stock.

1.2 The HRA is a ring-fenced account i.e. the authority does not have any general discretion to transfer sums out of the HRA, or to support the HRA with contributions from the General Fund, (there are certain circumstances where transfers are permitted or prescribed but these are exceptions).

1.3 From April 2012 the Government introduced a self-financing funding system whereby the HRA now retains its rental income locally and uses this to provide for management, maintenance and major works to the housing stock. To effect this change in funding each authority had their housing 'business' valued and this required us to take on £78.3m of HRA debt

1.4 The Government's calculation of our Self-Financing valuation was made on the assumption that we will adhere to the rent policy and the timetable for convergence; if rents are not increased in line with this then resources will be lost from the HRA which may impact on the longer term business plan.

1.5 In April 2005 Six Town Housing was established as an Arms Length Management Organisation (ALMO) to manage and maintain the authority's housing stock and related assets. A Management Agreement was signed between Six Town Housing and Bury Council which details the responsibilities that are delegated to the ALMO.

1.6 Bury Council agrees the level of Management Fee payable from the Housing Revenue Account to Six Town Housing for the provision of the delegated responsibilities; the fee being paid for 2015/16 is £13,058,600.

1.7 For 2016/17 the HRA is expected to have an average stock of 8,022 dwellings. The self-financing valuation was based on assumed levels of Right to Buy Sales for each authority. Our settlement assumed that we will have 44 RTBs in 2016/17, however given the current level of activity the HRA estimates have been prepared on the basis of 50 sales. If the level of sales is above or below this figure then this will result in less or more rental income to the HRA than has been assumed.

1.8 As a result of the HRA being a ringfenced account, any surplus or deficit on the HRA is carried forward into the next financial year and is called the working balance. Section 5 of this report contains an assessment of the minimum level of balances to be held.

1.9 The implementation of the Government's Welfare Reforms will have an increasing impact on the Housing Revenue Account and on the approximately 72% of tenants who are entitled to support with their rent and charges.

1.10 The introduction of the Universal Credit, sees benefits paid directly to the majority of claimants, as opposed to a simple transfer from the Council into rent accounts, is expected to have a huge impact on collection rates for rents and other charges. Currently around 62% of HRA rental income comes directly from Housing Benefit meaning that once the current welfare reforms have been fully implemented up to £18.4m of HRA income will have to be collected from tenants, presenting a large risk to income streams (based on the total assumed rental income for 2016/17).

1.11 There are currently only around 174 tenants claiming Universal Credit so at this stage it is difficult to assess the impact on the HRA for the coming year.

1.12 The Council's Support Fund was financed by specific grant, however this ceased in the 2015/16 Settlement. Similarly funding for Discretionary Housing Payments has seen a reduction. Both of these developments are likely to have an adverse impact on vulnerable tenants and potentially impact upon rent arrears in the future.

1.13 An updated impact assessment of the welfare reforms is currently being undertaken through the Welfare Reform Board and this is expected to be completed in May 2016.

1.14 The roll out of Universal Credit and direct payments will also impact on costs incurred by the Council and Six Town Housing, for example, increased 'cash' transaction costs.

2.0 RENT LEVELS 2016/17

2.1 In December 2000 the government issued a policy statement entitled 'The Way Forward for Housing' which proposed that rent setting in social housing should be brought onto a common system based upon relative property values and local earnings levels. The aim is that rents on similar properties in the same area should be the same no matter who is the landlord.

2.2 In order to achieve the objectives set out in the policy statement there is now a common formula for both Local Authority (LA) rents and those of Registered Social Landlords (RSL). Restructuring and convergence of LA and RSL rents was originally intended to be completed over 10 years i.e. April 2002 to March 2012. The target date for completion was revised by the government on more than one occasion however the government's rent policy for 2015/16 onwards assumed that convergence had been completed in 2014/15.

2.3 Under the current system a Target Rent is calculated for each dwelling. The target rent increases each year in line with the government's guideline which for 2015/16 was the Consumer Price Index (CPI) for the previous September plus 1%.

2.4 At the Council meeting in February of last year an average increase of 2.2% was recommended, this being in line with the rent setting policy however a subsequent amendment was agreed that froze the rents at the 2014/15 levels.

2.5 In July 2015 the Chancellor of the Exchequer announced that social rents would reduce by 1% each year for the next four years. This requirement is contained within the Welfare Reform and Work Bill which is currently progressing through Parliament. However a recent announcement has indicated that Supported Accommodation will be exempted from this requirement for 2016/17.

Therefore for 2016/17 it is proposed that:

- rents are decreased by 1% for dwellings other than those in Sheltered and Extra Care Schemes (7,574 properties)
- rents are increased by 0.9% (September CPI plus 1%) for Sheltered and Extra Care dwellings (448 properties)

2.6 The introduction of the self financing system did mean that the Council had more freedom regarding the level of rents that it set (although the national rent policy continued and the calculation of the debt taken on by Bury assumed the achievement of rent convergence by 2015/16). The requirement within the Welfare Reform and Work Bill to reduce rents by 1% for each of the next four years removes this freedom and withdraws resources on an ongoing basis from the Housing Revenue Account. The table below shows the estimated loss of rental income to the HRA over the four year period:

Rental income lost over 4 year period 2016/17 – 2019/20	
Impact of 1% reduction on base 2016/17 rents	£2,640,700
Impact of not applying future CPI + 1% increases	£2,677,600
Total resources lost from HRA	**£5,318,300**

2.7 During the passage of the Welfare Reform and Work Bill the government has confirmed that authorities can increase individual property rents to the Target Rent level when they are relet to a new tenant (1% reductions would then apply for subsequent years).

2.8 Bury's average rent is currently more than £6 per week lower than the average Target rent for our properties; if relets were to be moved to target rents then the HRA would receive additional rent income of up to £80,000 on an ongoing basis from properties relet in one year, with additional revenue from relets in future years. The amount of additional rental income will depend on the number and timing of relets and the current rents of the individual properties when compared to their Target rent.

2.9 This policy has not been adopted previously mainly due to concerns about properties having different rents than their neighbours however this is already the case to some degree as rent restructuring was not completed. This situation will become more widespread under the Pay to Stay proposals which would require market rents to be charged where households have income above a certain level. Given this and the need to ensure the long term viability of the HRA it is now proposed that a policy of reletting properties at their Target rent should be adopted from the first rent week in April 2016.

2.10 Bury’s rents are currently collected on a 50 week basis with 2 non-collection weeks in December.

2.11 Currently Housing Benefit for our HRA tenants is paid in line with the 50 week collection basis. However the introduction of Universal Credit will see claimants receiving payments monthly in arrears on the basis of a 52 week year. This means that there is a risk that tenants in receipt of Universal Credit could fall into arrears as the weekly rent due on a 50 week basis will be higher than the amount included in their direct payment.

2.12 The following tables show the difference between the current and proposed rents on the basis of:

- a decrease of 1% applied to the rents of all dwellings other than those in Sheltered and Extra Care Schemes
- an increase of 0.9% (September CPI plus 1%) applied to Sheltered and Extra Care dwellings

All dwellings other than Sheltered and Extra Care

TYPE	NUMBER OF BEDROOMS	VALUATION AT JAN' 1999 VALUES	RENT 2015/16	PROPOSED RENT 2016/17	INCREASE / (DECREASE) OVER ACTUAL 2015/16 RENT	
		£	£	£	£	%
Bed-sit	0	25,387	61.71	61.09	(0.62)	(1.0)
Bungalow	1	30,993	69.02	68.33	(0.69)	(1.0)
Flat	1	28,529	67.99	67.31	(0.68)	(1.0)
House	1	29,467	69.52	68.83	(0.69)	(1.0)
Bungalow	2	39,612	81.38	80.56	(0.82)	(1.0)
Flat	2	29,505	74.96	74.21	(0.75)	(1.0)
House	2	34,626	77.76	76.99	(0.77)	(1.0)
Maisonette	2	32,132	76.84	76.07	(0.77)	(1.0)
Flat	3	29,702	80.43	79.63	(0.80)	(1.0)
House	3	37,570	85.51	84.66	(0.85)	(1.0)
Maisonette	3	33,845	83.93	83.09	(0.84)	(1.0)
House	4/6	38,490	92.92	91.99	(0.93)	(1.0)
		32,890	**76.25**	**75.49**	**(0.76)**	**(1.0)**

Sheltered and Extra Care dwellings

TYPE	NUMBER OF BEDROOMS	VALUATION AT JAN' 1999 VALUES	RENT 2015/16	PROPOSED RENT 2016/17	INCREASE / (DECREASE) OVER ACTUAL 2015/16 RENT	
		£	£	£	£	%
Bed-sit	0	22,936	59.29	59.83	0.54	0.9
Bungalow	1	29,451	68.65	69.27	0.62	0.9
Flat	1	25,528	66.77	67.37	0.60	0.9
Bungalow	2	32,840	76.83	77.53	0.70	0.9
Flat	2	31,469	77.22	77.91	0.69	0.9
		26,164	**65.52**	**66.11**	**0.59**	**0.9**

The rents shown in the tables are all on a 50 week basis.

2.13 There are currently 311 HRA owned garages (of which 187 are currently let). Garages are charged for at the rate of £6.47 per week (50 weeks). The last increase was in April 2014. It is proposed that the charge is increased by 0.9%

from April, in line with September CPI plus 1%; this results in a weekly increase of £0.06 giving a rate of £6.53 per week (over 50 weeks).

3.0 SHELTERED AND OTHER TENANCY CHARGES

3.1 Sheltered Management and Support Charges

3.1.1 The management and provision of Sheltered support services are provided by Adult Care Services for which they receive payment from the Housing Revenue Account.

3.1.2 With effect from April 2008 all Sheltered tenants have been charged the same weekly charge. Charging in this way is a much fairer system as all tenants receive the same level of service.

3.1.3 Following a review of the costs of the services provided by Adult Care Services, to ensure that the costs of management and support were charged for appropriately, a Sheltered Management charge was introduced in 2012/13. This charge covers additional housing management costs that should not be funded through Supporting People funding.

3.1.4 Sheltered Management charges are set to ensure that the costs of the services provided are recovered from those receiving them. It is proposed that the weekly charges per unit (on a 50 week basis) are increased for 2016/17 as shown below.

	Current Charge **£**	**Proposed Charge 2016/17** **£**
Sheltered schemes (other than Extra Care)	10.40	10.49
Extra Care schemes (Falcon House/Griffin House)	19.97	20.15

3.1.5 The proposed increase is 0.9% being September CPI plus 1%.

3.1.6 These charges will be eligible for Housing Benefit purposes and it is expected that benefits will be payable to accepted claimants.

3.1.7 Following the review of the charging structure and the introduction of the Sheltered Management charge the standard weekly Support Charge per unit was reduced to £8.33 (on a 50 week basis) for 2012/13 and has remained at this level since then. Charges for support costs are not eligible for Housing Benefit but instead a subsidy is paid for eligible tenants from a locally administered Supporting People ‘pot’ that also funds other supported accommodation in the Borough.

3.1.8 It is proposed that this charge remains unchanged for 2016/17. This charge applies at all Sheltered schemes other than the Extra Care schemes at Falcon House and Griffin House.

3.1.9 The Extra Care Sheltered Scheme, covering the Falcon House and Griffin House schemes, has different support charges which reflect different levels of support offered dependant on the assessed needs of the individual tenants; this support is provided by the Department of Communities and Wellbeing and they will be reviewing the charges for 2016/17.

3.2 Sheltered Amenity Charges

3.2.1 The Sheltered Amenity Charges were increased by 1.2% for 2015/16. It is proposed that the current charges are increased by 0.9% (September CPI figure plus 1%) from the first rent week in April 2016. The additional income generated will offset increased costs of providing the service, for example pay awards.

The current and proposed charges per unit per week (over 50 weeks) will be as shown in the table below with Appendix 4 detailing the total Sheltered Management, Support and Amenity Charges for each scheme:-

	Current Charge £	**Proposed Charge 2016/17 £**
Clarkshill	16.13	16.28
Elms Close	1.88	1.90
Falcon House	9.43	9.51
Griffin House	9.15	9.23
Harwood House	18.31	18.47
Moorfield	20.95	21.14
Mosses House	16.62	16.77
Stanhope Court	8.43	8.51
Taylor House	18.69	18.86
Top O'th Fields 1	18.03	18.19
Waverley Place	19.81	19.99
Wellington House	26.80	27.04

3.2.2 Amenity charges are eligible for Housing Benefit purposes and it is expected that benefits will be payable to accepted claimants.

3.3 Sheltered Heating Charges

3.3.1 Heating charges are only levied at Sheltered schemes where there is a communal heating system with no separate metering of individual consumption; the aim of the charges is to recover the actual energy costs incurred at each scheme.

3.3.2 At the Council meeting in February of last year a freeze in the charges was recommended, however a subsequent amendment was agreed that reduced the charges by 5% for the current year. The charges are based on expected contract prices and estimated levels of consumption. On this basis it is proposed that the charges are reduced by 10% for 2016/17.

3.3.3 The current and proposed charges per unit per week, (exclusive of VAT), are:-

	Present Charge £	Proposed Charge £	Proposed Increase/ (Decrease) %
Taylor House	16.43	14.79	(10)
Clarks Hill	11.09	9.98	(10)
Waverley Place	15.96	14.36	(10)
Harwood House	15.41	13.87	(10)

3.3.4 Heating Charges are not eligible for Housing Benefit however most Sheltered Tenants should be eligible for Winter Fuel Payments; for winter 2015/16 the rates for these are £200 per household for those born on or before 5 January 1953, rising to £300 per household for those aged 80 or over in the week beginning 21 September 2015.

3.4 Furnished Tenancies Charges

3.4.1 A Furnished Tenancy Scheme was introduced during 2005/06. The scheme provides furniture packages for which an additional weekly charge is payable.

3.4.2 There are currently 235 furnished tenancies. Prior to 2014/15 the scheme was expanded on a self funding basis with increases of 20% per annum in the number of furnished tenancies.

3.4.3 Six Town Housing, who manage the furnished tenancies, are currently undertaking a review of the packages and tenancies available under the scheme to determine whether a wider range of options may have a positive impact on tenancy sustainment. The outcome of this review is expected early in the next financial year; any proposed changes to the current packages will be subject to appropriate consultation and approval.

3.4.4 Furnished Tenancy charges are eligible for Housing Benefit purposes and therefore benefits should be payable to accepted claimants. The introduction of Universal Credit and direct payments will mean that there is an increased risk of non-payment of these charges.

3.4.5 Increases in charges to cover inflation in the costs of the scheme e.g. costs of replacement furniture and fittings are normally implemented from the first rent week in April of each year.

3.4.6 However it is proposed that pending the outcome of the review the current charges remain unchanged for 2016/17 as efficient procurement continues to deliver stability in replacement costs. The current weekly charges, (on a 50 week basis), are:

- 1 bed property £17.92
- 2 bed property £21.10
- 3 bed property £24.28

3.5 Fernhill Caravan Site Tenancy Charges

3.5.1 Management of the Fernhill Caravan Site passed over to Six Town Housing in 2014/15 for which they receive a separately determined Management Fee. Whilst income from tenants and payment of the Management Fee are accounted for in the General Fund not the Housing Revenue Account it is felt appropriate to consider increases in the charges under these tenancies alongside those of HRA rents and charges.

3.5.2 Tenants at the site are charged a weekly pitch fee and a weekly charge for water; these charges are payable on a 52 week basis i.e. there aren't any non-collection weeks.

3.5.3 At the Council meeting in February of last year an average increase of 2.2% was recommended, this being in line with the rent increase proposed for HRA dwellings, however a subsequent amendment was agreed that froze the charges at the 2014/15 levels. It is proposed that the weekly charges for 2016/17 are increased by 0.9% (September 2015 CPI plus 1%), therefore the current and proposed charges per plot per week are:

	Current Charge **£**	**Proposed Charge 2016/17** **£**
Single Plot – pitch fee	54.02	54.50
Double Plot – pitch fee	73.60	74.26
Single Plot – water charge	6.10	6.15
Double Plot – water charge	8.45	8.53

4.0 HOUSING REVENUE ACCOUNT PERFORMANCE

4.1 Voids

4.1.1 The rent lost on empty properties is projected to be 1.64% over the course of 2015/16; this will mean an increase in rent income of approximately £47,000 as the original budget allowed for a void level of 1.8%.

4.1.2 The level of void loss for 2016/17 has been assumed at 1.6% which could be a challenging target given 2015/16 performance to date and the potential impact on void levels from the implementation of welfare benefit changes; if the target is not achieved then there would be a reduction in rental income to the HRA. The assessed level of minimum HRA balances for 2016/17 allows for this possibility as discussed in section 5.

4.1.3 If the target was to be exceeded then this would result in an increase in rental income to the HRA which could either be carried forward into 2017/18 or targeted during the coming financial year for service developments.

4.1.4 Appendix 2 details the loss or increase in rental income at different void levels if the 1.6% is not achieved in 2016/17.

4.2 Rent Arrears

4.2.1 The opening arrears and current levels for 2015/16 are shown in the following table. The figures reflect the fact that around £7,100 of Former Tenant Arrears has been written off during 2015/16. Write offs totalling £53,200 are awaiting write off and it is anticipated that a further £20,000 could be written off before the end of 2015/16. All write offs are done in accordance with the Corporate Debt Write Off Policy as approved by the then Executive.

	Opening Arrears 2015/16 £	Current Position £	Increase/ (Reduction) in arrears £
Current Arrears	521,900	673,000	151,100
Former Tenant Arrears	424,400	515,600	91,200
	946,300	1,188,600	242,300

4.2.2 Authorities are required to make suitable provision, in accordance with proper accounting practices, to cover the write-off of rent and service charge arrears.

4.2.3 The Bad Debt Provision for rent arrears, which is held on the Authority's Balance Sheet, stood at £679,500 at the beginning of this financial year. The requirement for the year is calculated with reference to the type of arrear and the amount outstanding on each individual case.

4.2.4 The original budget for 2015/16 allowed for additional contributions to the provision totalling £488,500; £183,200 for uncollectable debts and £305,300 for the impact of benefit reforms. Looking at the arrears position, it is now estimated that the additional provision required in 2015/16 may only be £318,300. All things being equal this suggests that the Provision will stand at £917,500 at the end of 2015/16 against arrears of £1,188,600. The reduced requirement has resulted from delays in the implementation of some welfare benefit changes whilst the effects of others have been mitigated through the actions of the Welfare Reform Group and close working with Partners in implementing the Corporate Debt Policy.

4.2.5 The 2016/17 estimates allow for additional contributions to the provision, totalling £481,100:

- For uncollectable debts £180,400
  This figure represents 0.6% of the rent roll and is a decrease compared to the expected contribution in the current year; this reflects the lower rent levels assumed for 2016/17.

- For the impact of benefit reforms £300,700
  This figure represents 1.0% of the rent roll and has been included as an additional contribution to the Bad Debt Provision to reflect the potential impact that welfare benefit changes could have on the level of rent arrears, including the reassessment of cases currently in receipt of Discretionary Housing Payments and roll out of Universal Credit.

4.2.6 If the arrears position is not as severely impacted upon as has been estimated then a lower contribution may be required which would release additional resources in the HRA; conversely if the arrears position should deteriorate more significantly then additional contributions to the Bad Debt Provision could be required and these would need to be found from the HRA balances. The position is kept under regular review and reported to members in the quarterly Finance and Performance Monitoring Report.

4.3 Rechargeable Repairs

4.3.1 The amount due from tenants for rechargeable repairs currently stands at around £319,200 of which £298,700 is debt over 1 year old. Of the debt over 1 year old around £220,500 appears to be static debt i.e. there have been no payments received at all. No accounts have been written off so far in the current year however £17,600 of accounts have been identified as potential write offs.

4.3.2 The Bad Debt Provision for rechargeable repairs, which is held on the Authority's Balance Sheet, currently stands at £287,700.

Taking into account the expected write offs, at the end of 2016/17 the provision will stand at £270,100; this amount will be reduced by the amount of any further write-offs done before the end of 2016/17. Given the level of Bad Debt Provision that has now been built up the HRA will not need to make a contribution to the provision for 2016/17; the balance on the Bad Debt Provision will be monitored to ensure that it provides adequate cover.

4.3.3 Accounts raised are subject to established recovery procedures with reminders/final notices being routinely issued and accounts passed to collection agencies (for debts under £750) where payment is not received or instalment arrangements agreed. Billing and recovery arrangements will be continually reviewed to ensure effective recovery.

5.0 2016/17 HOUSING REVENUE ACCOUNT (HRA), HRA CAPITAL RESOURCES AND THE HRA WORKING BALANCE

5.1 2016/17 Housing Revenue Account

5.1.1 The Housing Revenue Account Estimates are set out in Appendix 1. These estimates are subject to the final agreement of the Management Fee payable to Six Town Housing for 2016/17.

5.1.2 The most significant impacts on the HRA for the coming year and in future years will continue to be from the implementation of rent reductions and welfare reforms; these are key factors in the determination of the HRA working balance.

Two pieces of legislation are currently going through Parliament, The Welfare Reform and Work Bill and the Housing and Planning Bill. Both of these bills contain provisions that could have a significant impact on future HRA resources and our tenants, for example:

- Requirement for rent reductions
- Sale of higher value voids

- Charging of market rents under ‘Pay to Stay’
- Social rents ‘capped’ at Local Housing Allowance levels

The impact of these and other changes will be assessed as further information becomes available.

5.1.3 Other areas worthy of note that have not been covered in other sections of this report are:

- The Housing Revenue Account pays a Management Fee to Six Town Housing to provide the services delegated under the ALMO Management Agreement. The level of this Management Fee for 2016/17 is currently being finalised between Six Town Housing and the Council, in light of the 1% reductions in rents.

- Following a detailed appraisal of the business case for Springs Tenant Management Cooperative (TMO) to undertake a small scale voluntary transfer, their Management Board has agreed that this is not a viable option. Springs are now working with the Council around the possibility of becoming a self-financing, tenant management organisation. The details of how this will work have yet to be finalised, however, there are potential costs associated with setting up a new management agreement and related service level agreements. No provision has currently been made within the HRA for any additional costs that may arise from transfer.

5.1.4 The detailed Housing Revenue Account shown in Appendix 1 assumes that the proposals within this report for increases/decreases to rents and other charges are approved.

5.2 HRA Capital Resources

5.2.1 The introduction of a self-financing HRA system means that major works to the housing stock are now funded from rental income. The identification and timing of future major works are key factors in the development of the 30 Year HRA Business Plan.

5.2.2 Investment needs to be undertaken on a sustainable basis and in line with the Council’s overarching Housing Strategy.

5.2.3 Since the introduction of HRA self financing the resources made available from the HRA for capital expenditure agreed by the Council was at the level assumed in the self financing determination. However at the Council meeting in February of 2014 an amendment was agreed to provide a contribution of £12.357m from the Business Plan Headroom Reserve over the period of 2014/15 to 2016/17 to facilitate improvements to bathrooms, kitchens and heating systems in Council owned properties in addition to the existing programme of improvements.

5.2.4 An operational decision in June 2014 confirmed HRA funding for the AGMA NEDO heating project; it is estimated that this will require £467,000 in 2016/17 (the majority of this is HRA funding originally set aside to be used in the current year).

5.2.5 Therefore it is proposed that for 2016/17 the resources made available from the HRA for capital expenditure should be:

Housing programme Major works	£7.772m
HRA component modernisation Council approval	£4.119m
Disabled Facilities Adaptations – Housing Stock	£0.563m
NEDO Heating Project	£0.467m
Total capital resources 2016/17	£12.921m

5.2.6 Approval of the Capital Programme will form part of the consideration of the overall Council budget so should there be any change to the assumed level of resources this will impact on the amount contributed to or from the HRA Business Plan Headroom Reserve.

5.3 The HRA Working Balance

5.3.1 The HRA needs to have a certain level of balances in order to finance occurrences that cannot be predicted and to mitigate against material inaccuracies in the assumptions underlying the budget.

5.3.2 The ending of the Housing Subsidy system removed the unpredictability associated with awaiting an annual determination but the introduction of a self-financing HRA has brought new risks particularly in relation to interest rate changes and any factors that impact on the level of rental income assumed. The implementation of rent reductions and welfare reforms has been identified throughout this report as bringing significant risks relating to the level of rent that will be collectable in future years.

5.3.3 There is no statutory definition of the minimum level however as part of a longer-term approach to HRA finances the Council have established a Golden Rule regarding the minimum level of HRA balances. Using his judgement and experience, the Executive Director of Resources and Regulation has previously recommended that the HRA balances should not be allowed to fall below £100 per property. However the actual minimum level of balances to be retained still needs to be reviewed each year based on a risk assessment of the major issues that could affect the financial position of the HRA.

5.3.4 Applying the above rule would require the minimum HRA working balance to be:

Financial Year	Average no of Properties	Balance at year end £
2015/16	8,072	807,200
2016/17	8,022	802,200
2017/18	7,972	797,200

5.3.5 Appendix 4 details a risk assessment of the major issues that could affect the financial position of the HRA, including the sensitivity of the voids and arrears targets. This shows that on a risk assessed basis, the minimum level of HRA balances shown above may not be adequate given the need to provide for the increased risks associated with the self-financing system and the implementation of welfare reforms. Therefore the Executive Director of Resources and Regulation (the Council's s151 Officer) is now recommending that for 2016/17 the HRA balances should not be allowed to fall below **£1,010,000.**

Councillor Rishi Shori,
Deputy Leader of the Council and Cabinet Member for Finance and Housing

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