Subject: **Medium Term Financial Strategy & the Housing Revenue Account**

Report to: EMT – Housing Neighbourhoods Committee, 8th December 2016

Report by: Housing Business & Finance Manager

SUBJECT MATTER/RECOMMENDATIONS
Presents the Council's Medium Term Financial Strategy as it relates to the Housing Revenue Account. The report sets the scene for the forthcoming HRA Budget

1. Introduction

The Council's **Medium Term Financial Strategy** (MTFS) is a key part of the Council's Policy and Service regime and aims to ensure that all revenue resources are directed towards delivery of the Council's Priorities. .

The MTFS will address both the Council's General Fund and Housing Revenue Account (HRA) and will provide the context for annual budget setting decisions.

2. Medium Term Financial Strategy

The MTFS extract relating to the HRA follows this report.

3. Financial Implications

As per report

4. Risk Implications

As per report

5. Conclusions

The MTFS will be used to inform the HRA Budget for 2017/18

6. Recommendations

The Housing & Neighbourhoods Committee is asked to note the contents of this report.

7. Background Papers

None

Areas of consideration: e.g. does this report raise any of the following issues and if so how have these been considered/mitigated against?

Area for consideration	**Comment**
Monitoring Officer Consultation:	N/A
Section 151 Officer Consultation:	Yes
Existing Council Policies:	MTFS
Financial Implications:	In report
Legal Implications (including human rights):	N/A
Risk Implications:	In report
Equality Issues/EQIA assessment:	N/A
Crime & Disorder:	N/A
Every Child Matters:	N/A

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5. HOUSING REVENUE ACCOUNT

5.1 HRA - Overview

5.1.1 Since the introduction of self-financing in 2012, the 30 year HRA business plan has been challenged by a number of changes. Right to buy discounts have increased, rent setting policy has changed and other future new proposals affecting the HRA have been announced such as 'Disposal of higher value properties' in order to fund the Right to Buy of Housing Association properties.

5.1.2 In response to these changes, the Council has, in the short term, kept the HRA reserves levels high in order to mitigate this loss of revenue. Community Housing has carried out a review of all revenue spending to look at where savings can be made. The Capital programme, which is funded in large part by contributions from revenue, has also been reviewed and certain areas of work have been reduced or slowed down. Careful consideration has been made not to reduce capital spend where this would have an overly detrimental impact on revenue costs.

5.1.3 Although details are still to emerge, it is clear that the Council needs to prepare for further reduction in resource available to manage, maintain, improve and add to its housing stock. In addition, additional costs may be incurred through administration of the new regulations.

5.1.4 The affordable housing plans have been reviewed and the amount of money in the capital programme for new affordable housing is limited to the amount of money that needs to be spent in order to use available RTB receipts. Consideration will be given to selling empty properties where this makes best use of the stock and is the most economic option.

5.1.5 Service charges have been proposed to rise in line with the council's policy in order the close the gap between cost and income.

5.1.6 A new Asset Management strategy has been agreed between Great Yarmouth Norse (GYN) and the Council and known changes to the revenue maintenance plans have been reflected in the future budgets. Crucially, as part of the Asset management strategy, a refreshed stock condition survey started in 2016/17, concluding into 2017/18 and will gather updated information about the stock held. This will allow more accurate forecasting of future costs and enable better planning of maintenance and improvement programmes.

5.1.7 The impact of the latest forecasts and changes to the investment plans are reported separately in the Housing Major Works Capital Programme.

5.2 Rent setting policy changes - 1% Reduction over 4 years

5.2.1 The Welfare Reform and Work Act 2016 introduced a 1% reduction per year for four years to social housing rents starting in April 2016. This replaced the Government's rent policy, which commenced in April 2015 to limit rent increases to CPI + 1%. This in itself replaced the previous policy which aimed to bring parity between social housing rents in the Council and Housing Association sector and had set a target rent for each property. The financial impact of this change was a reduction in income of £9.8m up until 2024/25, when considered in conjunction with the Council's decision in February 2014 to agree a rent increase below the recommended formula.

5.2.2 The government has said that 1% reduction will 'reset the levels of rents in the social housing sector', which over the recent years have become out of kilter with private rents.

5.2.3 The impact of the rent decrease is to further reduce the amount of money available to manage, maintain and improve the housing stock. The modelled reduction in resources amounts to a further reduction of £9.6m over four years and £142m over the course of the 30-year business plan.

5.3 **Disposal of 'higher value' properties**

5.3.1 The Housing and Planning Bill makes provision for grants to be made to private registered providers in respect of Right to Buy (RTB) discounts. The grants may be made by the Secretary of the State, the Homes and Communities Agency (HCA) and, in relation to dwellings in London, the Greater London Authority.

5.3.2 To meet the costs of providing discounts, a determination may be made requiring a local authority in England with an HRA to make a payment to the Government for a financial year reflecting the market value of high value housing likely to become vacant during the year, less costs, whether or not receipts are realised. Regulations will determine 'higher value' as applicable to different areas. The detail of how this will work in practice is still to be finalised and the regulations have not been published. Recently the Government has announced a delay to the full implementation of RTB for Housing Association tenants and to these regulations. Without the full detail, it is not possible to model the financial impact. However, the Government has recently said that it acknowledges that Councils will need a considerable lead in period in which to prepare.

5.3.3 It is understood, however, that when enacted, the local authority must consider selling its interest (Freehold or leasehold) in high value housing but it is assumed that it could fund the payment by other means. It is likely that stock retaining authorities will have the option to retain some receipts to facilitate provision of replacement homes. The details of this part of the scheme are not known and may for part of a revised scheme on the use of Right to Buy funds.

5.3.4 All the payments will be based on assumptions about receipts from voids sales; it may be the case that actual receipts fall short of the payments due. In this case local authorities will need to fund the payments from other sources or face interest charges on late payments.

5.3.5 As a result of this policy, the Council will lose rental streams from any high value properties that are sold, along with any marginal costs of managing and maintaining those units. It would be equitable for authorities to receive some form of compensation for the loss of net rent income.

5.4 **Pay to Stay**

5.4.1 The Housing and Planning Bill made provision for the charging of rent with reference to the market rate or other factors based on income and housing area. The original announcement referred to relevant, income levels of households outside of London of £31k pa

5.4.2 On 22ND November, The Government announced that it no longer intends to make 'Pay to Stay' compulsory for Council tenants.

5.5 **Capital Financing Costs**

5.5.1 As a result of the introduction of self-financing, the Council paid the Government £58.4m on behalf of the HRA. The implications of interest payable on borrowing and debt repayments are built into the draft HRA budget.

5.5.2 The existing debt attributable to both the HRA and GF has been split (nominally) into two separate pools. The self-financing settlement debt was aggregated within the new HRA debt pool from 1 April 2012.

5.5.3 The financing costs charged to the HRA will continue to be monitored and reviewed, to ensure that the implications of treasury management decisions are recognised corporately and reflected in budgeting and forecasting.

5.7 **Right to Buy Discounts and Retained Receipts**

5.7.1 Right to buy discounts have increased since the introduction of Self Financing, the maximum discount increases each year based on the consumer price index (CPI). The business model has been amended to incorporate this change.

5.7.2 The HRA is still part of a retention agreement, where the HRA can retain receipts, to support up to 30% of the cost of replacement homes if incurred in a 3 year period. If retained receipts are not used, the Council is liable to repayment of the receipt plus interest, so it is important to monitor and project RTB sales and RTB receipts in order to plan for their appropriate use.

5.7.3 The HRA has plans for new affordable housing which covers the spend of the RTB retained receipts. This includes looking at options for new build sites, including 6 properties on the Beacon Park development and an in-fill site in Gorleston which has recently been granted planning permission for a further 6 properties. Other sites are also being considered as part of the Local Plan 'call for sites.'

5.7.4 In addition to the funding of new build properties, it is proposed to increase the availability of affordable housing with a combination of: grant contributions to Housing Association developments; purchasing appropriate empty homes on the open market; and purchasing of a limited number of suitable properties on the open market.

5.8 **Future Plans**

5.8.1 There are two key strands to the Councils HRA investment plans:

a) Maintaining and improving the housing stock;

b) New Affordable council housing, including new housing to replace sales under RTB in line with Government guidance.

The next stage of the HRA review will be the preparation of the revised HRA 30 year business plan incorporating the HRA long term spending plans driven by the stock condition survey and the resourcing of those plans including the impact of RTB sales and social rent policy.