



WARDS AFFECTED: ALL WARDS

1. **PURPOSE OF REPORT**

- 1.1 To review key elements of the 2014/2015 Housing Revenue Account budget ahead of submission to Council on 20th February 2014.
- 1.2 Members should note that the HRA budget is at work in progress stage. The areas outstanding are referred to below.
- 1.3 The Housing Revenue Account budget has been prepared taking into account the Capital Programme and Housing Revenue Account Investment Plan. These documents should be read in conjunction with this report.

2. **RECOMMENDATION**

2.1 That the following be noted:

- The revised 2013/2014 budgets
- The budget assumptions used for the 2014/2015 budgets
- The key factors impacting the 2014/2015 budgets which are currently unknown. A verbal update on each issue will be provided at this meeting

3. **BACKGROUND TO THE REPORT**

- 3.1 The budgets covered by this report relate to the Council's responsibilities as the landlord of around 3,400 dwellings. The Housing Revenue Account is the ring fenced account which presents financial performance for the following activities:
 - Income from dwelling rents and associated charges, e.g. utilities
 - Supervision & Management (General), e.g. lettings, waiting list, rent collection, tenant consultation
 - Supervision & Management (Special) e.g. sheltered schemes, hostel, roads, paths, fences and grounds, which are not part of an individual property
 - Housing Repairs & Maintenance, which has a separate account and deals with the maintenance of individual properties.

Revised 2013/2014 Budget

- 3.2 As part of setting the budget for 2014/15, a formal revised budget for 2013/14 has not been prepared. The original budget for 2013/14 has, in accordance with the Council's Financial Procedures, been revised during the year to take account of approved supplementary budgets and virements. The resulting forecasts for both the Housing Revenue Account and Housing Repairs Account (as at November 2013) can be summarized as follows:

	2013/14 Original Estimate	2013/14 Latest Estimate
	£	£
Housing Revenue Account		
Income	-12,322,830	-12,322,830
Expenditure	10,556,940	10,648,805
Further movements in year	0	-124,000
<i>Net Cost of Service</i>	<i>-1,765,890</i>	<i>-1,798,025</i>
Transfer from Major Repairs Reserve	-850,780	-850,780
Interest and pension charges	-31,500	-31,500
Transfer to other reserves	3,749,323	3,749,323
(Surplus)/Deficit	1,101,153	1,069,018
Balance at 1 April	-1,950,903	-1,890,007
Balance at 31 March	-849,750	-820,989
Housing Repairs Account		
Administration	744,820	743,760
Programmed Repairs	555,410	555,410
Responsive Repairs	1,058,655	1,048,655
Further movements in year	0	-85,000
<i>TOTAL Expenditure</i>	<i>2,358,885</i>	<i>2,262,825</i>
Income	-3,039,430	-3,039,430
Transfer to reserves	696,778	696,778
Net Expenditure	16,233	-79,827
Balance at 1 April	-318,410	-242,547
Balance at 31 March	-302,177	-322,374

- 3.3 This table identifies £124,000 of savings on the Housing Revenue Account to year end. The majority of these relate to salary savings that have been achieved through rationalising vacancies. In addition the Council has received £30,000 additional income from Leicestershire County Council for Supporting People provision.
- 3.4 With regards to the Housing Repairs Account, although there are savings of £85,000 forecast for 2013/2014. (£52,000 of these savings relate to salary costs, with an additional reduction in contracted costs (e.g agency costs) of £33,000.), there are additional costs forecast to the year end which could result in a deficit position. Further work is currently being done to quantify and profile these costs and an update report will be circulated to Members.

2014/2015 Draft Budget

Service Priorities and links to other documents

- 3.5 The 2014/15 budget has been created with clear links to the Council's strategic and service objectives. Clarity of priorities has enabled cross-party members through the Scrutiny and Executive functions to prioritise the projects included in the Capital Programme. Although the Capital Programme is the subject of a separate report, it is important to note that there are links between capital and revenue (e.g. interest from capital receipts, interest on borrowing, staffing costs etc).

3.6 In addition to the Corporate Plan, the overarching strategic document for the HRA is the HRA Investment Plan which was approved by Council in July 2013. The key objectives for future housing provision outlined in this document were taken into account in producing both the revenue and capital HRA budgets. These are as follows:

- Continue to invest in existing stock to maintain good quality homes
- Invest in new build schemes/acquire affordable housing to increase the amount of affordable housing available.
- Refurbishment/regeneration of stock which no longer meets needs.
- Environmental improvements to estates to ensure they are clean and safe.
- Invest in service delivery
- Develop and maintain effective engagement with tenants

Budget Assumptions and the Budget Strategy

3.7 The 2014/15 revenue budget has been prepared following a robust budget process outlined in the 2014/15 Budget Strategy (the Strategy).

3.8 In order to drive efficiency savings within the cost of supplies and services, a rate of 0% has been applied to non-contract related expenditure. As the Retail Price Index (RPI) has stood around 3% in year, the application of 0% represents an effective saving on running costs. For contracts, an inflation rate of 3.2% has been used, unless otherwise specified within the terms of the specific contract.

3.9 For pay costs, the 2014/15 estimates include a 1% increase for all employees to reflect anticipated pay awards. The Council operates a disciplined process of challenging recruitment and filling of posts and therefore a salary saving rate of 5% (£451,687 – General Fund and HRA) has been applied to posts to reflect the savings which will result from this challenge. This rate has been increased from 4% used in 2013/2014.

3.10 The Leicestershire Pension Fund was re-valued as at 31 March 2013 in accordance with statutory requirements and was found to be in actuarial deficit i.e the assets of the fund were less than those required to meet the long term liabilities in terms of benefits due to members. Whilst action is needed to remedy this position the timescales involved mean that there is sufficient time to recover the position in a phased manner over a number of years and valuations. An employers contribution rate of 19.5% (an increase of 1% from previous year) has been included for 2014/15 with an additional 1.6% being included for ill health retirement insurance. These rates have been confirmed with the Pension Scheme provider

Factors impacting 2014/2015 – Current unknowns

3.11 At the time of producing this report, the majority of financial inputs required for both the Housing Revenue and Housing Repairs budgets were complete. However there are number of material uncertainties which require clarification ahead of completion of the budget. These are detailed below.

Rents

3.12 The average rent increase for this Council for 2014/2015 has been calculated at **4.99%**. This has been calculated using a formula based on convergence to target rent. It should be borne in mind that it is important to set rents each year to meet the rent convergence target as the HRA business and Investment plans are based on this assumption. Using this methodology and taking into account loss of rent from voids, the 2014/2015 budget will assume rental income of £12,774,693.

- 3.13 This rental increase will be considered for approval by Executive on 22nd January 2014 and is hence, unknown to date.

Supporting People Income

- 3.14 The Council is currently contracted by Leicestershire County Council to provide Sheltered Housing Services to older people living in the Borough. A grant of £441,671 for was received in 2013/14 to deliver this service.
- 3.15 The contract for this service is due to end in June 2014 and therefore it was originally budgeted that all funding from this point (around £331,253) would no longer be received. The County Council, in anticipation of this commenced a procurement process in December 2013 to identify a future provider for this service. In addition, Council's were asked to consider whether charging could be introduced for tenants to "recoup" elements of the funding gap.
- 3.16 On 24th December 2013, Leicestershire County Council communicated that they would not be proceeding with this procurement process. At the time of writing this report, the consequences of this announcement had not been clarified and therefore the budget impact is currently unknown.

Housing Restructure

- 3.17 The Housing Revenue Account Investment Plan outlined the following investment priorities for the forthcoming years:

	ESTIMATE 2014-15 £	ESTIMATE 2015-16 £	ESTIMATE 2016-17 £
Service Investment	100,000	100,000	100,000
Stock Enhancements	596,000	146,000	806,000
New Build/Acquisition	2,500,000	2,500,000	2,500,000
Total Investment	3,196,000	2,746,000	3,406,000

- 3.17 Within the budget for "Service Investment" the Chief Officer (Housing, Community Safety and Partnerships) is proposing a restructure of the housing teams to improve tenant service and efficiency of delivery. This is currently being considered by the Strategic Leadership Board and any financial investment will be reflected in the 2014/2015 budget as required.

Schedule of Rates

- 3.18 The in-house housing repairs service operates using a trading account within the General Fund. All expenditure incurred for in house operations is posted to this code. Income is posted to the account following interfaces from Orchard which are calculated on the basis of schedule of rates held. At the year end, any surplus or deficit held on the trading account is removed and transferred to the housing repairs accounts. The balance is proportioned between capital and revenue based on the value of jobs completed to date.
- 3.19 The trading account budget has historically been set to achieve a "break even" position and therefore no surplus or deficit is posted to the Housing Repairs account. This position was however not achieved in 2012/2013 and is potentially forecast to achieve a deficit again for the current year. This position is, in part due to the schedule of rates used for the in house team which has been in place since 2003 and was not up dated when the service was brought in house in 2011...It is quite

possible that schedule of rates do not enable the in house team to recoup their costs and this could be contributing to the deficit provision. In light of this, an independent review of the schedules has been commissioned from the Chartered Institute for Housing who will also provide an assessment of the value for money of the rates and how they compare to other providers across all housing sectors. This review will inform both the outturn position for 2013/2014 and the 2014/2015 budget. It is envisaged that this review will be complete by 31st January 2014.

4. FINANCIAL IMPLICATIONS [KP]

As contained in the report

5. LEGAL IMPLICATIONS [AB]

Contained in the body of the report

6. CORPORATE PLAN IMPLICATIONS

This report contributes to the achievement of the following Corporate Plan Priorities:

- Improve the quality of residents' homes
- Provide accommodation which is affordable in the Borough

7. CONSULTATION

The Council consulted on all budget priorities in the Budget Setting Survey conducted in August/September 2013.

All budget holders, Corporate Operations Board and the Strategic Leadership Board have been consulted throughout the budget setting process.

8. RISK IMPLICATIONS

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
That the Council has insufficient resources to meet its aspirations and cannot set a balanced budget	<p>A budget strategy is produced to ensure that the objectives of the budget exercise are known throughout the organisation.</p> <p>The budget is scrutinised on an ongoing basis to ensure that assumptions are robust</p>	S. Kohli

	and reflective of financial performance.	
	Sufficient levels of reserves and balances are maintained to ensure financial resilience	

9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

Results of budget setting will impact upon a number of vulnerable groups in the Borough.

10. **CORPORATE IMPLICATIONS**

By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

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