

COUNCIL – 21ST FEBRUARY 2013**REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)****RE : HOUSING REVENUE ACCOUNT ESTIMATES 2013/14****WARDS AFFECTED: ALL WARDS****1. PURPOSE OF REPORT**

1.1 To seek approval of the 2013/2014 Housing Revenue Account (HRA) budget.

2. RECOMMENDATIONS

2.1 That the Housing Revenue Account budget and associated reserve and balances movements be approved.

3. BACKGROUND TO 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 2012/13 budget

3.2 As part of setting the budget for 2013/14, a formal revised budget for 2012/13 has not been prepared as the original budget has, in accordance with the Council's Financial Procedures, been revised during the year to take account of approved supplementary budgets and virements. Appendix A however identifies that the forecast surplus on the Housing Revenue Account has decreased by £310,087 in year. The reasons for this movement are summarised below:

	£
Loss of rental income associated from increased levels of void loss	50,000
Cost of conducting additional consultancy work and a stock validation survey to update details held on property archetype and bedroom numbers	59,613
Reforecast interest costs following confirmation of buy out debt	240,000
Additional transfer to regeneration reserve approved by Council (Sept 12)	114,280
Salary savings	-76,200

Savings in consultancy and audit fees	-14,000
Savings in central and admin costs following delay in move to Hinckley Hub	-23,000
Additional Supporting people and lifeline income	-37,000
Other minor savings	-3,606
Net additional costs	310,087

Draft 2013/14 Budget

- 3.3 2012/13 was the start of a new era in Council Housing. Until 2012/13 the Housing Revenue Account was subsidised by Central Government to provide support for social housing costs being greater than the rents that could be afforded by tenants. Under this "subsidy" scheme the rents paid by tenants were nationally pooled so that authorities where the expenditure need has been less than the rental income paid into the centre (negative subsidy) and those in the corresponding position received subsidy (positive subsidy).
- 3.4 In March 2012, all housing authorities "bought out" of the subsidy system by making a one off payment financed by borrowing. The payment for this Council was £67.652m. The Housing Revenue Account Business Plan outlined a repayment profile for this loan which would not commence until year 6 of "self financing". This profile and the removal of the subsidy system provides all housing Councils with financial flexibilities and surplus funds for investment. On this basis a "Regeneration Reserve" of £2.834million was created in September 2012 for this Council and will be increased to £10million over the next 5 years.
- 3.5 A summary of the HRA budgets is shown in the Table below and the detailed budgets shown in Appendix A, B and C.

	2012/13 Original Estimate	2012/13 Latest Estimate	2013/14 Original Estimate
	£	£	£
Housing Revenue Account			
Income	-11,696,460	-11,696,460	-12,322,830
Expenditure	9,212,970	9,272,583	10,556,940
Net Cost of Service	-2,483,490	-2,423,877	-1,765,890
Further movements in year	0	136,194	0
Transfer from Major Repairs Reserve	-818,740	-818,740	-850,780
Interest receivable and Pension Charges	-2,770	-2,770	-31,500
Transfer to other reserves	2,743,010	2,857,290	3,749,323
(Surplus)/Deficit on the year	-561,990	-251,903	1,101,153
Balance at 1 April	-1,471,550	-1,699,000	-1,950,903
Balance at 31 March	-2,033,540	-1,950,903	-849,750
Housing Repairs Account			
Administration	809,565	873,085	744,820
Programmed Repairs	555,410	555,410	555,410
Responsive Repairs	1,058,655	908,655	1,058,655

TOTAL Expenditure	2,423,630	2,337,150	2,358,885
Income	-2,402,560	-2,402,560	-3,039,430
Transfer to reserves	0	220,000	696,778
Net Expenditure	21,070	154,590	16,233
Balance at 1 April	-420,170	-473,000	-318,410
Balance at 31 March	-399,100	-318,410	-302,177

Below are a number of considerations and assumptions that have been taken into account in producing the HRA budget.

Service Priorities and links to other documents

- 3.6 The 2013/14 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).
- 3.7 In addition to the Corporate Plan, the overarching strategic document for the HRA is the HRA 30 year Business Plan which was produced for this Council in conjunction with the Chartered Institute of Housing. The key objectives for future housing provision outlined in this document were taken into account in producing the budget and 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
- 3.8 A consultation exercise regarding the future spending on the Housing Revenue Account was issued in January 2013. The results of this and member/officer working groups will further inform priorities around HRA spending. It should therefore be noted that this budget is considered a "holding budget" and will be reforecast and re-approved following this process.

Budget Assumptions and the Budget Strategy

- 3.9 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) in July 2012 was 3.2%, 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.
- 3.10 The salaries and wages budget is one of the most significant expenditure budgets for the HRA. For pay costs, the 2013/14 estimates include a 1% increase for all employees to reflect the agreed pay awards. The Council operates a disciplined process of challenging recruitment and filling of posts and therefore a salary saving rate of 4% has been applied to posts to reflect the savings will result from this challenge.
- 3.11 The Leicestershire Pension Fund was re-valued as at 31 March 2010 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 18.5% has been for the 2013/14 budget with an additional 1.6% being included for ill health retirement insurance. These rates have been confirmed with the Pension Scheme provider.

Stock condition information

- 3.12 A Stock Condition Survey (SCS) was procured by the Council in 2012/13 and performed by Savills. Through this process, 20% of properties were surveyed in order to provide detailed information on the timing and nature of works required to maintain the condition of the Council's stock.
- 3.13 The outputs and results of this survey have been factored into the HRA Capital Programme and also the Housing Repairs budget in year. As noted in 3.8, these budgets will be reconsidered following the conclusion of the HRA consultation process.

Working Balances/Level of Reserves

- 3.14 The Council has the following policies relating to levels of balances and reserves in the HRA:
- Maintain HRA balances (non earmarked) at a minimum of £600,000. This minimum balance has been re-visited as part of the 2013/14 budget process and revised to the equivalent of £250 per property. For the 2013/14, this equates to minimum balances of £849,750 based on 3,399 properties
 - Where possible, all actual service under-spends and excess balances should be transferred to earmarked reserves to plan for specific future costs or financial risks.
 - There should be no direct contribution from revenue to capital except for specific identified projects.
- 3.15 The projected movement of the Housing Revenue Account Balance is detailed below and indicates that sufficient balances are forecast as at 31st March 2014 based on the minimum balance thresholds outlined in 3.14.

	2012/13 ORIGINAL ESTIMATE (Published) £	2012/13 LATEST ESTIMATE £	2013/14 ORIGINAL ESTIMATE £
Relevant Year Opening Balance at 1st April	(1,471,550)	(1,699,000)	(1,950,903)
Relevant Year Closing Balance at 31st March	<u>(2,033,540)</u>	<u>(1,950,903)</u>	<u>(849,750)</u>

- 3.16 Appendix D provides a summary of earmarked HRA reserves together with estimated movements during 2012/13 and 2013/14. Based on these calculations, it is estimated that the Council will hold £3,311,000 in earmarked HRA reserves as at 31st March 2013 and £6,793,000 at 31st March 2014. The following transfers to reserves are proposed:

Reserve	Transfer £'000	Use
Piper Alarm	10	Reserve set aside for additional costs that may be incurred on provision of the Piper Alarm service. This service is currently under review by the Council
Regeneration Reserve	2,594	This reserve has been set aside to fund the implementation of the Housing Investment Plan. This will be reviewed following the consultation exercise on HRA spending. The transfer to reserves has been funded by both the HRA and the Housing Repairs Account
Repayment Reserve	1,797	An amount will be set aside each year from the HRA to plan for the repayment of the housing subsidy debt
Pensions Reserve	45	Following the deferral of pensions "opt in" for the Council to 2017, the cost of the additional pension contributions under this scheme have been placed in a reserve to plan for when the costs arise. This is in addition to the required transfer under accounting standards

Rent Increases

- 3.17 Under self financing, Council landlords have been granted additional flexibility in setting rent levels and rent determinations are no longer published to prescribe the process. That said, the principle of rental convergence still applies under self financing and the Housing Revenue Account Business Plan for this Council continues to be based on a convergence date of 2015/16.
- 3.18 In order to achieve the objective of convergence, the proposed rent for 2013/14 has been calculated using the same principles as previously adopted. In applying this, a blanket increase of RPI + ½% (Retail Price Index) has been calculated, where RPI is 2.6%. In addition, the proposed rent has been increased by a proportion of the difference between the inflated rent and the target rent for the property. This proportion is based on the number of years to convergence (3 years).
- 3.19 In order to ensure that rents are not increased excessively, the previous rental formula included rental constraint devices (known as caps and limits). The cap dictates the total amount that can be charged for each property based on the number of bedrooms. In addition, the limit states that no tenants' weekly rent can be increased by more than RPI + 0.5% + £2 year on year. Whilst these limits are no longer mandated, the proposed rental calculation has retained these principles to prevent against disproportionate rental increases.
- 3.20 Based on this calculation, the average rental increase for this Council for 2013/14 has been calculated at **5.49%**. This is materially in line with the Councils Housing Revenue Account 30 year Business Plan prepared by the Chartered Institute of Housing which forecast a rental increase of 5.5% for the forthcoming year. After factoring in void losses of 2%, this increase will generate forecast rental income of £ 12,230,600 in 2013/14 (5.36%). This rental increase was approved by Executive on 30th January 2013.

4. FINANCIAL IMPLICATIONS (KB)

As contained in the report.

5. LEGAL IMPLICATIONS (AB)

Contained in the body of the report.

6. CORPORATE PLAN IMPLICATIONS

The proposed budgets will allocate resources to enable the Council to achieve its objectives for its own housing stock.

7. CONSULTATION

Relevant council officers have been consulted in the preparation of the budgets. In addition TAP have been consulted on rent levels proposed.

A full consultation on HRA spending priorities is currently in progress and the draft budget will be updated to reflect any relevant outcomes.

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/decision 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 and reflective of financial performance.</p> <p>Sufficient levels of reserves and balances are maintained to ensure financial resilience</p>	S. Kohli

9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

The budget will allow management and maintenance of properties throughout the Borough in accordance with the HRA Business Plan.

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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Appendix A

Housing Revenue Account Budget 2013/14

	2012/13 ORIGINAL ESTIMATE (Published) £	2012/13 LATEST ESTIMATE £	2013/14 ORIGINAL ESTIMATE £
SUMMARY HOUSING REVENUE ACCOUNT			
INCOME			
Dwelling Rents	(11,608,250)	(11,608,250)	(12,230,600)
Non Dwelling Rents	(72,380)	(72,380)	(75,890)
Contributions to Expenditure	(15,830)	(15,830)	(16,340)
	(11,696,460)	(11,696,460)	(12,322,830)
EXPENDITURE			
Supervision & Management (General)	1,421,930	1,481,523	1,721,960
Supervision & Management (Special)	593,220	593,240	589,360
Contribution to Housing Repairs A/C	2,400,000	2,400,000	3,032,000
Depreciation	2,935,470	2,935,470	2,967,510
Capital Charges : Debt Management	3,770	3,770	17,240
Increase in Provision for Bad Debts	50,000	50,000	110,500
Interest on borrowing	1,808,580	1,808,580	2,118,370
	9,212,970	9,272,583	10,556,940
Net Cost of Services	(2,483,490)	(2,423,877)	(1,765,890)
Transfer from Major Repairs Reserve	(818,740)	(818,740)	(850,780)
Interest Receivable	(650)	(650)	(10,850)
FRS17 Adjustment	(2,120)	(2,120)	(20,650)
Net Operating Expenditure	(3,305,000)	(3,245,387)	(2,648,170)
Further movements in year	0	136,194	0
CONTRIBUTIONS			
Contribution to Piper Alarm Reserve	10,400	10,400	10,400
Contribution to Pensions Reserve	12,890	12,890	42,030
Contribution to Repayment Reserve	0	0	1,796,893
Transfer to Regeneration Reserve	2,719,720	2,834,000	1,900,000
(Surplus) / Deficit	(561,990)	(251,903)	1,101,153
Relevant Year Opening Balance at 1st April	(1,471,550)	(1,699,000)	(1,950,903)
Relevant Year Closing Balance at 31st March	(2,033,540)	(1,950,903)	(849,750)

Supervision and Management Budget 2013/14

	2012/13 ORIGINAL ESTIMATE (Published) £	2012/13 LATEST ESTIMATE £	2013/14 ORIGINAL ESTIMATE £
SUPERVISION & MANAGEMENT (GENERAL)			
Employees	572,570	572,570	628,030
Premises Related Expenditure	95,390	95,390	89,480
Transport Related Expenditure	17,510	17,510	19,200
Supplies & Services	116,970	176,558	147,010
Central & Administrative Exp	672,420	672,420	884,380
Gross Expenditure	1,474,860	1,534,448	1,768,100
Revenue Income	(52,930)	(52,925)	(46,140)
Net Expenditure to HRA	1,421,930	1,481,523	1,721,960
SUPERVISION & MANAGEMENT (SPECIAL)			
Employees	574,110	574,130	596,660
Premises Related Expenditure	380,750	381,558	398,490
Transport Related Expenditure	11,640	11,640	11,260
Supplies & Services	134,960	134,960	133,960
Central & Administrative Exp	166,870	166,870	132,250
Gross Expenditure	1,268,330	1,269,158	1,272,620
Revenue Income	(622,860)	(623,668)	(629,340)
Recharges	(52,250)	(52,250)	(53,920)
Total Income	(675,110)	(675,918)	(683,260)
Net Expenditure to HRA	593,220	593,240	589,360

Housing Repairs Account Budget 2013/14

	2012/13 ORIGINAL ESTIMATE (Published) £	2012/13 LATEST ESTIMATE £	2013/14 ORIGINAL ESTIMATE £
HOUSING REPAIRS ACCOUNT			
Administration			
Employee Costs	356,960	356,980	310,120
Transport Related Expenditure	15,340	15,340	8,140
Supplies & Services	143,365	206,865	143,340
Central Administrative Expenses	293,900	293,900	283,220
Total Housing Repairs Administration	809,565	873,085	744,820
Programmed Repairs	555,410	555,410	555,410
Responsive Repairs	1,058,655	908,655	1,058,655
GROSS EXPENDITURE	2,423,630	2,337,150	2,358,885
Contribution from HRA	(2,400,000)	(2,400,000)	(3,032,000)
Interest on Cash Balances	(2,020)	(2,020)	(2,480)
Enhancement Exp Recovered and Other	0	0	0
FRS17 Adjustment	(540)	(540)	(4,950)
TOTAL INCOME	(2,402,560)	(2,402,560)	(3,039,430)
Opt in Contributions to Pension Reserve	0	0	3,200
Contribution to HRA Reserves	0	220,000	693,578
NET EXPENDITURE	21,070	154,590	16,233
Opening Balance at 1st April	(420,170)	(473,000)	(318,410)
Closing Balance at 31st March	(399,100)	(318,410)	(302,177)

Housing Revenue Account Earmarked Reserves

	1st April 2012	Transfers	Transfers	Capital	31st March 2013	Transfers	Transfers	Capital	31st March 2014
	Balance	Out	In	Out	Forecast Balance	Out	In	Out	Forecast Balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
HRA Piper Balance	-126	0	-10	0	-136	0	-10	0	-146
HRA Communal Furniture	-4	0	0	0	-4	0	0	0	-4
HRA Unapplied Grants and Contributions	-6	0	0	0	-6	0	0	0	-6
HRA Regeneration Reserve	0	0	-3,054	220	-2,834	0	-2,594	943	-4,485
HRA Repayment Reserve	0	0	0	0	0	0	-1,797	0	-1,797
HRA Pensions Contribution Element	0	0	-13	0	-13	0	-45	0	-58
HRA Housing Repairs Account	-473	155	0	0	-318	21	0	0	-297
Total HRA Earmarked Reserves	-609	155	-3,077	220	-3,311	21	-4,445	943	-6,793

Note: All reserves are "credit" balances and therefore are shown as negative figures for accounting purposes

