

HOUSING REVENUE ACCOUNT BUDGET 2014/2015
REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE
DIRECTION)



Hinckley & Bosworth
Borough Council

A Borough to be proud of

WARDS AFFECTED: ALL WARDS

1. **PURPOSE OF REPORT**

- 1.1 To seek approval of the 2014/2015 Housing Revenue Account (HRA) budget, including the Housing Repairs Account.

2. **RECOMMENDATION**

- 2.1 That the following be approved:

- The revised Housing Revenue and Housing Repairs Account budgets for 2013/2014 shown in Appendix 1 and Appendix 2
- The proposed virements in 2013/2014 on the Housing Repairs Account detailed in section 3.10
- The Housing Revenue and Housing Repairs Account budgets for 2014/2015 shown in Appendix 1 and Appendix 2
- The proposed movement in reserves shown in Appendix 3

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.

Budget summary

- 3.2 The original Housing Revenue Account budget for 2013/2014, revised budget for 2013/2014 (based on December outturn) and the proposed budget for 2014/2015 is set out in Appendix 1.

- 3.3 The original Housing Repairs Account budget for 2013/2014, revised budgets for 2013/2014 (based on December outturn) and the proposed budget for 2014/15 is set out in Appendix 2

Revised 2013/2014 Budget

- 3.4 As part of setting the budget for 2014/15, a formal revised budget for 2013/14 has not been prepared. The original budgets for 2013/14 have, in accordance with the Council's Financial Procedures, been revised during the year to take account of approved supplementary budgets and virements.

Housing Revenue Account

- 3.5 Appendix 1 identifies £72,425 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.

Housing Repairs account

- 3.6 The contractor arm of 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.
- 3.7 The trading account budget has been set for 2013/2014, as in previous years to achieve a "break even" position and therefore no surplus or deficit was budgeted to be posted to the Housing Repairs account.
- 3.8 A break even position was not achieved in 2012/2013 and a deficit of £230,000 was charged to the housing repairs accounts. As at December 2013 it is forecast that the deficit for 2013/2014 will be £387,472, of which £138,000 (36%) is attributable to the Housing Repairs Revenue Account based on the profile of work completed.
- 3.9 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 contractor (DSO) 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 future budgeting work.
- 3.10 In order to ensure nil impact on Housing Repairs budgets, it is recommended that Council approves a virement of £138,000 to increase the budget on responsive repairs to cover the forecast contractor deficit. This will be financed from reductions in administration and programmed repairs budgets as follows:

HOUSING REPAIRS ACCOUNT	2013/14 LATEST ESTIMATE £	2013/14 REQUESTED ESTIMATE £	2013/14 REQUIRED VIREMENT £
Administration			
Employee Costs	309,060	229,060	(80,000)
Transport Related Expenditure	8,140	6,140	(2,000)
Supplies & Services	143,340	104,340	(39,000)
Central Administrative Expenses	283,220	278,220	(5,000)
Total Housing Repairs Administration	743,760	617,760	(126,000)
Programmed Repairs	555,410	543,410	(12,000)
Responsive Repairs	1,048,655	1,186,655	138,000
GROSS EXPENDITURE	2,347,825	2,347,825	0

- 3.11 Members should note that these reductions are possible due to savings achieved from delaying recruitment to new posts in the service and reduction in consultancy costs. There will be no reduction in the repairs service as a consequence of these changes and therefore no customer impact.
- 3.12 Following these virements, the housing repairs service will continue to achieve the breakeven forecast in the latest estimate (See Appendix 2). **Members should note that this position is budgeted after a contribution to Regeneration Reserves of £693,578, implying an operating profit for the service as a whole in 2013/2014 of nearly £700,000**

2014/2015 Budget

Service Priorities and links to other documents

- 3.13 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).
- 3.14 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

- 3.15 The 2014/15 revenue budget has been prepared following a robust budget process outlined in the 2014/15 Budget Strategy (the Strategy).
- 3.16 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.
- 3.17 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% 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. In order to ensure accuracy of salary coding between client and contractor, a review is currently being performed. The Deputy Chief Executive (Corporate Direction) will authorize any virements arising as a result of this process in line with financial regulations (i.e as these are within the HRA and salary sub codes).
- 3.18 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

Rents

- 3.19 Under self financing, Council landlords were 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
- 3.20 In order to achieve the objective of convergence, the proposed rent for 2014/2015 was calculated using the same principles as previously adopted. In applying this, a blanket increase of RPI + ½% (Retail Price Index) was calculated, where RPI is 3.2%. In addition, the proposed rent was 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 (2 years).
- 3.21 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 retained these principles to prevent against disproportionate rental increases
- 3.22 Based on this calculation, the average rental increase for this Council for 2014/2015 was calculated at 4.99%. This proposed rent was not endorsed by the Executive who approved a rent increase of **3.99%** on 22nd January 2014. After factoring in void

losses of 2%, this increase will generate forecast rental income of £12,642,773 in 2014/15 (3.37%).

Supporting People Income

- 3.23 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 was received in 2013/14 to deliver this service.
- 3.24 The contract for this service is currently under review by the County Council. Whilst decisions are being made on the future of the service, funding for all Districts has been reduced for 2014/2015 by 10%. This has therefore created a pressure on the HRA of £44,167.
- 3.25 In light of the uncertainty around the future of this income stream and the budget pressures faced by the County Council, work is being performed by housing and finance to consider charges that could be introduced to tenants to “recoup” elements of any funding gap in future years. These will be considered by Executive during 2014/2015.

Housing Repairs budgets

- 3.26 The Housing Repairs operational budgets (Planned and Responsive repairs) have been prepared taking into account the outputs of the stock condition survey conducted in 2013/2014 and capacity for this to be delivered in 2014/2015.
- 3.27 The current position on the Housing Repairs contractor account has been detailed in 3.6 of this report. In light of the deficit position in both the current and prior year, it is deemed prudent to forecast a similar position in 2014/2015 to ensure that sufficient resource is available to fund repairs activity. A total deficit of £400,000 has been budgeted, of which 36% (£144,000) has been included within the budget for responsive repairs.
- 3.28 This position will continue to be monitored throughout the year and will be revisited following the results of the schedule of rates work detailed in section 3.9
- 3.29 **Despite this additional cost the housing repairs account is forecast to achieve an operating surplus (i.e before transfer to reserves) in 2014/2015 of £722,500**

Working balances

- 3.30 The Council has the following policies relating to levels of balances and reserves in the HRA:
- Maintain HRA balances (non earmarked) of £250 per property. For the 2014/2015, this equates to minimum balances of £846,500 based on 3,386 properties
 - Maintain a breakeven position within the Housing Repairs Account with all surpluses transferred to earmarked reserves
 - 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.
- 3.31 The projected movement of the Housing Revenue Account Balance is detailed below and indicates that sufficient balances are forecast as at 31st March 2015 based on the minimum balance thresholds outlined in 3.30. Required transactions to achieve minimum balances for 2013/2014 will be considered as part of the outturn process.

	2013/14 ORIGINAL ESTIMATE £	2013/14 LATEST ESTIMATE £	2014/15 ORIGINAL ESTIMATE £
Opening Balance at 1st April	(1,950,903)	(1,890,007)	(775,419)
Closing Balance at 31st March	(849,750)	(775,419)	(846,500)

3.32 The Housing Repairs Account balance is forecast as follows:

	2013/14 ORIGINAL ESTIMATE £	2013/14 LATEST ESTIMATE £	2014/15 ORIGINAL ESTIMATE £
Opening Balance at 1st April	(318,410)	(242,547)	(237,374)
Closing Balance at 31st March	(302,177)	(237,374)	(239,874)

Reserves

3.33 Appendix 3 provides a summary of earmarked HRA reserves, together with estimated movements during 2013/2014 and 2014/2015. Based on these calculations, it is estimated that the Council will hold £6,975,055 in earmarked HRA reserves as at 31st March 2014 and £9,553,798 at 31st March 2015. This amount excludes any “unapplied grants and contributions” which are treated as earmarked reserves in accordance with accounting regulations but relate to specific grants where conditions have not yet been met.

3.34 The following transfers to reserves are proposed for 2014/2015:

Reserve	Transfer £'000	Use
Piper Alarm Reserve	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	3,642	This reserve has been set up to fund the implementation of the Housing Investment Plan. The transfer to reserves has been funded by both the HRA and the Housing Repairs Account
Service Improvement Reserve	50	This reserve has been set up to fund the potential costs arising from a restructure in the Housing department designed to enhance the tenant journey

3.35 It is proposed that HRA reserves will only be used for capital purposes in 2014/2015. Full details are included in the Capital Programme.

4. FINANCIAL IMPLICATIONS [KP]

4.1 As contained in the report

5. LEGAL IMPLICATIONS [AB]

5.1 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**

7.1 Relevant council officers have been consulted in the preparation of the budgets.

7.2 A full consultation exercise on priorities for Housing investment was conducted in 2013/2014, the results of which were considered in preparation of the Housing Investment Plan

7.3 “Tenants Together” were consulted on the proposed rent levels and recommended an increase of 3.5%

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	A budget strategy is produced to ensure that the objectives of the budget exercise are known throughout the organisation. The budget is scrutinised on an ongoing basis to ensure that assumptions are robust and reflective of financial performance. Sufficient levels of reserves and balances are maintained to ensure financial resilience	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 Investment 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

Background papers: None

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Executive Member: Cllr K Lynch

Appendix 1

	2013/14 ORIGINAL ESTIMATE £	2013/14 LATEST ESTIMATE £	2014/15 ORIGINAL ESTIMATE £
HOUSING REVENUE ACCOUNT			
INCOME			
Dwelling Rents	(12,230,600)	(12,230,600)	(12,642,773)
Non Dwelling Rents (garages & land)	(75,890)	(75,890)	(78,261)
Contributions to Expenditure	(16,340)	(16,340)	(16,340)
Further net savings identified in year	0	(72,425)	0
	(12,322,830)	(12,395,255)	(12,737,374)
EXPENDITURE			
Supervision & Management (General)	1,721,960	1,790,520	1,733,285
Supervision & Management (Special)	589,360	643,235	552,846
Contribution to Housing Repairs A/C	3,032,000	3,032,000	3,192,165
Depreciation (Item 8 Debit)	2,967,510	2,967,510	2,883,000
Capital Charges : Debt Management	17,240	17,240	3,790
Increase in Provision for Bad Debts	110,500	110,500	110,500
Interest on Borrowing	2,118,370	2,118,370	2,088,620
	10,556,940	10,679,375	10,564,206
Net (Income)/Cost of Services	(1,765,890)	(1,715,880)	(2,173,168)
Transfer from Major Repairs Reserve	(850,780)	(850,780)	(850,780)
Interest Receivable	(10,850)	(10,850)	(16,850)
IAS19 Adjustment	(20,650)	(20,650)	(16,610)
Transfer from unapplied grants and contributions	0	(25,000)	0
Net Operating (Income)/Cost	(2,648,170)	(2,623,160)	(3,057,408)
CONTRIBUTIONS			
Contribution to Piper Alarm Reserve	10,400	10,400	10,400
Contribution from Piper Alarm Reserve	0	(11,575)	0
Contribution to Service Improvement Reserve	0	0	50,000
Contribution to Pension Reserve	42,030	42,030	3,910
Contribution to Repayment Reserve	1,796,893	1,796,893	0
Contribution to Regeneration Reserve	1,900,000	1,900,000	2,922,017
(Surplus) / Deficit	1,101,153	1,114,588	(71,081)
Relevant Year Opening Balance at 1st April	(1,950,903)	(1,890,007)	(775,419)
Relevant Year Closing Balance at 31st March	(849,750)	(775,419)	(846,500)

Appendix 2

	2013/14 ORIGINAL BUDGET £	2013/14 LATEST ESTIMATE £	2013/14 REQUESTED ESTIMATE £	2014/15 ORIGINAL ESTIMATE £
HOUSING REPAIRS ACCOUNT				
Administration				
Employee Costs	310,120	309,060	229,060	341,060
Transport Related Expenditure	8,140	8,140	6,140	7,250
Supplies & Services	143,340	143,340	104,340	119,840
Central Administrative Expenses	283,220	283,220	278,220	246,300
Total Housing Repairs Administration	744,820	743,760	617,760	714,450
Programmed Repairs	555,410	555,410	543,410	558,600
Responsive Repairs	1,058,655	1,048,655	1,186,655	1,202,655
GROSS EXPENDITURE	2,358,885	2,347,825	2,347,825	2,475,705
Contribution from HRA	(3,032,000)	(3,032,000)	(3,032,000)	(3,192,165)
Interest on Cash Balances	(2,480)	(2,480)	(2,480)	0
Interest on Borrowing	0	0	0	0
Other Income		0	0	(2,010)
IAS19 Adjustment	(4,950)	(4,950)	(4,950)	(4,030)
TOTAL INCOME	(3,039,430)	(3,039,430)	(3,039,430)	(3,198,205)
Contribution to HRA Reserves	693,578	693,578	693,578	720,000
Opt in Cont to Pension Reserve	3,200	3,200	3,200	0
NET EXPENDITURE / (INCOME)	16,233	5,173	5,173	(2,500)
Opening Balance at 1st April	(318,410)	(242,547)	(242,547)	(237,374)
Closing Balance at 31st March	(302,177)	(237,374)	(237,374)	(239,874)

Appendix 3

	Opening balance - 1st April 2013	Items in 2013/14 Original Budget Transfer to reserve to reserves	Supplementary Budgets 2013/14 - Revenue	Final Capital Programme forecast	Revised Balance - 31st March 2014	Transfer to reserves 2014/2015	Revenue spend 2014/2015	Capital spend 2014/2015	Forecast Balance 31st March 2015
	£	£	£	£	£	£	£	£	£
Piper Alarm Reserve	-138,986	-10,400	11,575	0	-137,811	-10,400	0	0	-148,211
Communal Furniture Reserve	-4,913	0	0	0	-4,913	0	0	0	-4,913
Regeneration Reserve	-2,834,000	-2,593,578	0	392,140	-5,035,438	3,642,017	0	1,123,674	7,553,781
Repayment reserve	0	-1,796,893	0	0	-1,796,893	0	0	0	1,796,893
Service Improvement Reserve	0	0	0	0	0	-50,000	0	0	-50,000
Total	-2,977,899	-4,400,871	11,575	392,140	-6,975,055	3,702,417	0	1,123,674	9,553,798

