



HOUSING REVENUE ACCOUNT BUDGET 2015/16
REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

WARDS AFFECTED: ALL WARDS

1. PURPOSE OF REPORT

- 1.1 To seek approval of the 2015/16 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 2014/15 shown in Appendix 1 and Appendix 2
- The Housing Revenue and Housing Repairs Account budgets for 2015/16 shown in Appendix 1 and Appendix 2
- The proposed movement in reserves shown in Appendix 3

- 2.2 That Council approve the recommendation that delegated authority be granted to the Deputy Chief Executive (Corporate Direction) to action any budget changes required to reflect decisions made by Executive on charging for Housing Related Support services. Council should note that these changes are presentational only and will have minimal impact on the overall HRA budget.

- 2.3 That Council note the approved rent increase and the policy that void properties will be re-let at formula rent from 1st April 2015.

3. BACKGROUND TO THE REPORT

- 3.1 The budgets covered by this report relate to the Council's responsibilities as the landlord of around 3,300 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 2014/15, revised budget for 2014/15 (based on November 2014 outturn) and the proposed budget for 2015/16 is set out in Appendix 1.

- 3.3 The original Housing Repairs Account budget for 2014/15, revised budgets for 2014/15 (based on November outturn) and the proposed budget for 2015/16 is set out in Appendix 2

Revised 2014/15 Budget

- 3.4 As part of setting the budget for 2015/16, a formal revised budget for 2014/15 has not been prepared. The original budgets for 2014/15 have, in accordance with the Council's Financial Procedures, been revised during the year to take account of approved supplementary budgets and virements.
- 3.5 Appendix 1 identifies £37,000 of additional costs on the Housing Revenue Account to year end. This is due to an increase on the "void loss" in year. No other significant changes are currently forecast.
- 3.6 In addition, Appendix 1 identifies £118,000 of savings on the Housing Repairs Account to year end. This relates to savings in responsive repairs which have been achieved from more efficient working methods and contract renegotiations. Members should be assured that this saving is not due to decreased levels of activity and that the number of responsive repairs jobs completed will be comparable to previous years.

2015/16 Budget

Service Priorities and links to other documents

- 3.7 The 2015/16 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).
- 3.8 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

- 3.9 The 2015/16 Housing Revenue Budget has been prepared following a robust process outlined in the 2015/16 Budget Strategy (the Strategy).
- 3.10 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 between 2-3% in year, the application of 0% represents an effective saving on running costs. For contracts, an inflation rate of 3% has been used, unless otherwise specified within the terms of the specific contract.
- 3.11 The salaries and wages budgets form one of the most significant element of the revenue budget. For pay costs, the 2015/16 estimates includes the agreed 2.2% pay increase as outlined by the NJC in November 2014. The Council operates a disciplined process of challenging recruitment and filling of posts and therefore a

salary saving rate of 5% (£465,878 – General Fund and HRA) has been applied to posts to reflect the savings which will result from this challenge. This rate is unchanged from that used in 2014/15.

3.12 Service Growths totaling £136,057 endorsed by the Strategic Leadership Board have been included in the draft budget. Of this amount:

- £75,000 relates to the creation of the severance budget for the HRA similar to that in place within the General Fund
- £30,137 represents an increase in equipment budgets for Sheltered Schemes to ensure appropriate replacements can be made
- £25,000 relates to the element of Local Housing Allowance payments that can be charged to the HRA as approved by the Department for Work and Pensions (DWP)

Rents

Policy to 2014/15

3.13 As part of the previous Housing Subsidy regime, rents were calculated on the basis of an annual determination issued by the Department of Communities of Local Government (DCLG). The methodology included in this determination was highly prescriptive and offered little flexibility for landlords in setting rent levels.

3.14 One of the key objectives of rent setting under the Housing Subsidy regime was to ensure that the rents payable by Council tenants were brought into line with those paid by tenants of other Social Landlords (target rent) by a set date. This concept is known as “convergence”.

3.15 Under self financing, Council landlords were granted additional flexibility in setting rent levels and rent determinations were no longer published to prescribe the process. That said, the principle of rental convergence currently still applied and Councils were encouraged to implement formula which was broadly based an increase of RPI + ½% plus a proportion of the difference between inflated and target rent for the property. In order to ensure that rents were not increased excessively, the previous rental formula included rental constraint devices (known as caps and limits). The cap dictated the total amount that can be charged for each property based on the number of bedrooms. In addition, the limit stated that no tenants’ rent could be increased by more than RPI + 0.5% + £2 year on year.

Policy from 2015/16

3.16 In May 2014, the Government announced a revised rent policy which would apply for ten years from 2015/16. The objectives of this policy was “in recognition of the benefit of long-term certainty to landlords, in helping them to plan for future investment – and so provide more new affordable homes, improve existing affordable homes, and provide good services to their tenants.”¹

3.17 The revised policy outlines that a “formula” rent as at 2000/01 should be calculated using the formula below. This calculation incorporates a number of local factors deemed to impact the rental market rather than blanket increases that have previously been used:

$$(70\% \text{ of national average rent} \times \text{relative county earnings} \times \text{bedroom weight}) + (30\% \text{ of national average rent} \times \text{relative property value})^2$$

¹ Guidance on Rents for Social Housing – DCLG October 2014

² *National average rent* is average rent in April 2000

Relative county earnings is the average manual earnings for the county in which property is located divided by the national average manual earnings – both at 1999

- 3.18 Once the 2000/01 formula rent is calculated, it is then uplifted annually to 2014/15 by Retail Price Index (RPI) at September of the previous year plus an additional amount. In 2001/02, that additional amount is 1.0%; for all other years, it is 0.5%.
- 3.19 The revised rent policy then changes the uplift from 2015/16 to Consumer Price Index (CPI) at September of the previous year plus 1.0%. The move from RPI to CPI follows the Office for National Statistics' announcement in January 2013 that the formula used to produce the RPI does not meet international standards. As a result, the Government is looking to move to the CPI, where possible, where an inflation-index is currently being used in policy.
- 3.20 CPI at September 2014 was 1.2%.
- 3.21 Whilst use of this formula is not mandated, the DCLG states that it **expected** that Councils will set rents in this manner.

Hinckley and Bosworth Rents

- 3.22 Based on this calculation, the average rental increase for this Council for 2015/16 is calculated at **9.76%**. This level of increase is due to historical decisions made by members to not increase rents in line with formula. As a comparison, the actual rent charged in 2014/15 is on average £5.64 (6.69%) less than the recommended formula rent.
- 3.23 This proposed rental increase of 9.76% was not endorsed by the Executive who approved a rent increase of **6.5%** on 28th January 2015. After factoring in void losses of 2%, this increase will generate forecast rental income of £13,262,955 in 2015/16. This is £441,709 less than the rental income that would be generated if the formula rent increase was approved.
- 3.24 In order to compensate for loss of income from sub-formula rents, Executive also approved that void properties will be re-let at formula rent from 1st April 2015.

Supporting People Income

- 3.25 The Council is currently contracted by Leicestershire County Council to provide Housing Related Support services (HRS) to older people living in the Borough. A grant of £411,630 was received in 2014/15 to deliver this service. The contract for this service is due to end in September 2015.
- 3.26 In light of these announcements, Executive have considered the following options for the future of this service:
- “Do nothing” and continue to provide the service. This will create a budget pressure for the HRA of £411,630 per annum; being the value of the grant lost
 - Abolish the service altogether. This would save the Council £581,791 per annum less redundancy costs. This represents the current net cost of providing the service
 - Implementation of a charging regime for tenants in Sheltered Schemes which will recoup the income lost. This scenario has been supported in principle by the Executive.
- 3.27 Executive approved the introduction of charging on 28th January 2015. The 2015/16 budget has been set using the same basis as 2014/15 pending the announcement of any further Supporting People cuts and whilst the practicalities of changing are finalised. On the basis that charging has been introduced, presentational virements are required to establish the required budgets, **though the net impact on the HRA**

will be minimal. Council are therefore asked to approve that these changes are delegated to the Deputy Chief Executive (Corporate Direction) following approval by Executive.

Housing Repairs budgets

3.28 The housing repairs operational budgets (Planned and Responsive repairs) have been prepared taking into forecast need based and the capacity for this to be delivered in 2015/16. It is envisaged that costs of repairs will remain comparable to 2014/15.

3.29 On the basis of these costs and the efficiencies identified in year, the housing repairs account is forecast to achieve an operating surplus (i.e before transfer to reserves) of £707,630 and £681,710 in 2014/15 and 2015/16 respectively.

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 2015/16, this equates to minimum balances of £840,750 based on 3,363 properties at the point of rent setting
- 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 2016 based on the minimum balance thresholds outlined in 3.30. Required transactions to achieve minimum balances for 2014/15 will be considered as part of the outturn process. ³

	2014/15	2014/15	2015/16
	ORIGINAL	LATEST	ORIGINAL
	ESTIMATE	ESTIMATE	ESTIMATE
	£	£	£
Opening Balance at 1st April	(775,419)	(1,155,596)	(904,034)
Closing Balance at 31st March	(846,500)	(904,034)	(840,750)

3.32 The Housing Repairs Account balance is forecast as follows:

	2014/15	2014/15	2015/16
	ORIGINAL	LATEST	ORIGINAL
	ESTIMATE	ESTIMATE	ESTIMATE
	£	£	£
Opening Balance at 1st April	(237,374)	(483,255)	(570,885)
Closing Balance at 31st March	(239,874)	(570,885)	(474,595)

Reserves

³ (x) Relates to credit/positive balances

3.33 Appendix 3 provides a summary of earmarked HRA reserves, together with estimated movements during 2014/15 and 2015/16. Based on these calculations, it is estimated that the Council will hold £8,171,979 in earmarked HRA reserves as at 31st March 2015 and £7,373,183 at 31st March 2016. 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 require approval by Council:

Reserve	Transfer £	Use
2014/15		
Regeneration Reserve	1,900,000	When self financing was introduced, a Repayment Reserve was set up to fund costs should the Council wish to repay HRA debt earlier than planned. The approved HRA Investment Plan forecasts that debt will be paid back in line with original schedule set by PWLB and therefore it is proposed that this reserve is transferred to the Regeneration Reserve for use on capital schemes
2015/16		
Piper Alarm Reserve	10,400	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	3,245,150	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

3.35 It is proposed that HRA reserves will only be used for capital purposes in 2015/16. Full details are included in the Capital Programme.

HRA Business Plan

3.36 The HRA Business and Investment plan outlines how the HRA business will deliver services and capital projects over a 30 year period. This document is currently being revised and will be brought to Council for approval in October 2015.

4. FINANCIAL IMPLICATIONS [KP]

4.1 Contained in the body of the report

5. LEGAL IMPLICATIONS [EH]

5.1 This budget is must drawn up and approved in accordance with the Statutory requirements as to the keeping of a Housing Revenue Account (HRA), as contained in the Local Government and Housing Act 1989 (‘the Act’). It is a duty of each local authority to approve its HRA budget in the January and February immediately before the commencement of the financial year to which it relates.

5.2 The provisions include a duty, under Section 76 of the Act, to budget to prevent a debit balance on the HRA and to implement and review the budget. The Account must

relate to the income of the authority for the year from rents and other charges in respect of houses and other property within their Housing Revenue Account and the expenditure of the authority for the year in respect of the repair, maintenance, supervision and management of such property and any other requirements of the Secretary of State.

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 Together for Tenants were consulted on the proposed rent levels and recommended an increase of 6.5%

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	<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 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

HOUSING REVENUE ACCOUNT	2014/15 ORIGINAL ESTIMATE £	2014/15 LATEST ESTIMATE £	2015/16 ORIGINAL ESTIMATE £
INCOME			
Dwelling Rents	(12,642,773)	(12,642,773)	(13,262,955)
Non Dwelling Rents (garages & land)	(78,261)	(78,261)	(80,616)
Contributions to Expenditure	(16,340)	(16,340)	(16,830)
	(12,737,374)	(12,737,374)	(13,360,401)
EXPENDITURE			
Supervision & Management (General)	1,733,285	1,736,466	1,915,352
Supervision & Management (Special)	552,846	605,152	607,498
Contribution to Housing Repairs A/C	3,192,165	3,192,165	3,192,165
Depreciation (Item 8 Debit)	2,883,000	2,883,000	2,974,420
Capital Charges : Debt Management	3,790	3,910	4,220
Increase in Provision for Bad Debts	110,500	110,500	144,000
Lump sum Pension Contribution	0	0	53,000
Interest on Borrowing	2,088,620	2,087,800	2,099,100
Further net pressures identified in year	0	37,000	0
	10,564,206	10,655,993	10,989,755
Net (Income)/Cost of Services	(2,173,168)	(2,081,381)	(2,370,646)
Transfer from Major Repairs Reserve	(850,780)	(850,780)	(778,000)
Interest Receivable	(16,850)	(16,850)	(30,020)
IAS19 Adjustment	(16,610)	(16,610)	(19,120)
Transfer from unapplied grants and contributions	0	(30,000)	0
Net Operating (Income)/Cost	(3,057,408)	(2,995,621)	(3,197,786)
CONTRIBUTIONS			
Contribution to/(from) Piper Alarm Reserve	10,400	10,400	10,400
Contribution to/(from) Service Improvement Reserve	50,000	50,000	(20,000)
Contribution to Pension Reserve	3,910	3,910	3,520
Revenue Contributions to Capital Outlay	0	15,500	0
Contributions from Reserves / Carry Forwards	0	(41,333)	0
Transfer to Major Repairs Reserve	0	0	800,000
Contribution to Regeneration Reserve	2,922,017	3,232,017	2,467,150
Contribution from Regeneration Reserve	0	(23,311)	0
(Surplus) / Deficit	(71,081)	251,562	63,284
Relevant Year Opening Balance at 1st April	(775,419)	(1,155,596)	(904,034)
Relevant Year Closing Balance at 31st March	(846,500)	(904,034)	(840,750)

Appendix 2

	2014/15 ORIGINAL ESTIMATE £	2014/15 LATEST ESTIMATE £	2015/16 ORIGINAL ESTIMATE £
HOUSING REPAIRS ACCOUNT			
Administration			
Employee Costs	341,060	408,986	362,350
Transport Related Expenditure	7,250	7,250	7,250
Supplies & Services	119,840	119,840	121,710
Central Administrative Expenses	246,300	246,300	261,850
Further savings in year	0	(118,000)	0
Total Housing Repairs Administration	714,450	664,376	753,160
Programmed Repairs	558,600	556,210	560,230
Responsive Repairs	1,202,655	1,269,989	1,202,655
GROSS EXPENDITURE	2,475,705	2,490,575	2,516,045
Contribution from HRA	(3,192,165)	(3,192,165)	(3,192,165)
Interest on Cash Balances	0	0	0
Interest on Borrowing	0	0	0
Other Income	(2,010)	(2,010)	(2,010)
IAS19 Adjustment	(4,030)	(4,030)	(3,580)
TOTAL INCOME	(3,198,205)	(3,198,205)	(3,197,755)
Contribution to HRA Reserves	720,000	720,000	778,000
Carry forwards	0	(100,000)	0
NET EXPENDITURE / (INCOME)	(2,500)	(87,630)	96,290
Relevant Year Opening Balance at 1st April	(237,374)	(483,255)	(570,885)
Relevant Year Closing Balance at 31st March	(239,874)	(570,885)	(474,595)

Appendix 3

	Opening balance - 1st April 2014	Items in 2014/15 Original Budget	Supplementary Budgets - Revenue	Final Capital Programme forecast	Revised Balance - 31st March 2015	Transfer to reserves	Revenue spend	Capital spend	Forecast Balance 31st March 2016
						2015/2016	2015/2016	2015/2016	
	£	£	£	£	£	£	£	£	£
Piper Alarm Reserve	(137,811)	(10,400)	0	0	(148,211)	(10,400)	0	0	(158,611)
Communal Furniture Reserve	(4,913)	0	0	0	(4,913)	0	0	0	(4,913)
Regeneration Reserve	(4,384,967)	(3,642,017)	(1,900,000)	1,986,949	(7,940,035)	(3,245,150)	0	4,034,346	(7,150,839)
Repayment Reserve	(1,900,000)	0	1,900,000	0	0	0	0	0	0
Service Improvement Reserve	0	(50,000)	0	0	(50,000)	0	20,000	0	(30,000)
Pension Contribution Reserve	(28,820)	0	0	0	(28,820)	0	0	0	(28,820)
Total	(6,456,511)	(3,702,417)	0	1,986,949	(8,171,979)	(3,255,550)	20,000	4,034,346	(7,373,183)

