

Report of:	Head of Housing and Waste Management and Head of Finance
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Key Decision:	No
Report Track:	Cabinet: 30/01/14 Council: 12/02/14

**CABINET
30 JANUARY 2014
HOUSING REVENUE ACCOUNT BUDGETS 2013-14 TO 2016-17**

1 Purpose of Report

- 1.1 To review the 2013-14 Housing Revenue Account Budget.
- 1.2 To introduce the Housing Revenue Account budgets for the period 2014-15 to 2016-17.
- 1.3 To determine proposed Housing Revenue Account budgets for the period 2014-15 to 2016-17 for consideration by Council on 12 February 2014.

2 Recommendations

- 2.1 That the revised position with regard to estimated income and expenditure in respect of the 2013-14 and the proposed Housing Revenue Account budgets for the period 2014-15 to 2016-16, as summarised in Appendix 1 be noted.
- 2.2 That Council on 12 February 2014 be recommended to:-
 - (i) Determine a minimum level of working balances of £1,531,100 for 2014-15 and indicative working balances of £1,555,040 and £1,578,730 for 2015-16 and 2016-17 respectively.
 - (ii) Approve the HRA Revenue Budgets for 2014-15, 2015-16 and 2016-17 (and note the estimated outturn for 2013-14) as summarised in Appendix 1 of the report.

3 Key Issues and Reasons for Recommendation

- 3.1 This report considers proposed three year HRA budgets for 2014-15, 2015-16 and 2016-17 which have been formulated within the framework provided by the revised HRA Business Plan considered by Cabinet on 21 November 2013.
- 3.2 A review of the 2013-14 HRA budget, together with proposed HRA budgets for the period 2014-15 to 2016-17 are attached as Appendix 1. The proposed budgets have been formulated in accordance with the assumptions set out in the HRA Business Plan, with projected levels of income and expenditure as summarised below:-

	<u>2014-15</u> £	<u>2015-16</u> £	<u>2016-17</u> £
Estimated Income	19,923,480	20,435,730	20,786,760
Estimated Expenditure	<u>19,911,700</u>	<u>20,411,750</u>	<u>20,762,840</u>
Transfer to working balances	11,780	23,980	23,920

- 3.3 The effect of the proposed budgets on the estimated level of working balances is set out as part of Appendix 1. In view of the risks associated with the management of the HRA under self-financing, minimum working balances of 10% of net operating expenditure have been assumed throughout the three year budget period.

4 Relationship to Corporate Priorities

- 4.1 The proposed HRA budgets would contribute to the following service aims, which form part of the Housing Portfolio section within the proposed 2014-15 "Place" Priority Delivery Plan, i.e.
- (i) Increase the supply of affordable housing.
 - (ii) Maintain and improve the facilities and energy efficiency of the Council's housing stock.
 - (iii) Manage the Council's housing stock.
 - (iv) Support vulnerable Council tenants to live independently in their own homes.

5 Report Detail

- 5.1 Cabinet on 21 November 2013 considered a revised 30 year Housing Revenue Account Business Plan for the continued implementation of the devolved HRA "self financing system".

- 5.2 The revised HRA Business Plan has been used to provide the financial framework within which detailed proposed HRA budgets for the three year period 2014-15 to 2016-17 have been formulated.
- 5.3 The proposed budgets reflect ongoing effects of the anticipated outturn in respect of the 2013-14 HRA budget (which is reviewed as part of this report) and other changes in income and expenditure which are projected as a result of the detailed budget formulation work.

The Housing Revenue Account Budget 2013-14

- 5.4 A review of the 2013-14 budget is presented as part of Appendix 1.
- 5.5 Estimated income for 2013-14 is now forecast to be £19,321,890 compared to the original and approved budget estimate of £19,261,890. The estimated £60,000 increase in income results from an increase in rent income.
- 5.6 Estimated expenditure for 2013-14 is now forecast to be £20,308,790 compared to the approved budget estimate of £19,368,600. The reasons for this estimated £940,190 net increase in expenditure are set out below:-
- (i) Discretionary Housing Payments. Estimated budget savings of £125,370 in respect of the HRA contribution to the Discretionary Housing Payments budget. The budget savings result from a reduction in the anticipated number of tenants who wish to transfer to a smaller property as a result of the Social Sector Size Criteria.
 - (ii) Repairs and Maintenance. Estimated net budget savings of £29,450. This results from a reduction in the need for non-decent homes void repair works (budget savings of £100,000), offset by increased expenditure on responsive repairs due to an increase in the need for plastering work (budget increase of £60,000) and additional recharges (budget increase of £10,550).
 - (iii) Supervision and Management (General). Estimated additional expenditure of £8,170 as a result of an increase in recharges.
 - (iv) Supervision and Management (Special). Estimated budget savings of £3,990 as a result of a decrease in recharges.
 - (v) Revenue Contribution to Capital Outlay (RCCO). Increased RCCO of £1,090,830 comprising:-
 - £100,000 of budget savings from the non-decent homes void repairs budget to meet the need for additional capital expenditure on void dwellings which require decent homes works.
 - An additional £875,560 in accordance with the revised HRA Business Plan considered by Cabinet on 21 November 2013.
 - A further £115,270 following the detailed review of the 2013-14 HRA budget. *

Note:*In accordance with the Council's policy of utilising any surplus above the minimum amount required in working balances as a Revenue Contribution to Capital Outlay.

- 5.7 As a result of these changes it is now estimated that £986,900 will be transferred from working balances in 2013-14. This compares to the estimated £18,660 to be transferred to working balances as part of the original budget.

Housing Revenue Account Budgets 2014-15 to 2016-17

- 5.8 Unless specifically stated, the revised HRA Business Plan has been used as the basis for preparing the proposed HRA budgets for the period 2014-15 to 2016-17, which are attached as Appendix 1.

- 5.9 The proposed budgets have therefore been formulated in accordance with the following key assumptions:-

- (i) Rent Income. Annual rent increases in accordance with the Government's proposed national rent policy as reported to Cabinet on 19 December 2013. As a consequence a 4.5% rent increase has been applied for 2014-15 in accordance with the current rent convergence policy. For 2015-16 and 2016-17, rent increases at this stage have been assumed to increase annually by inflation.
- (ii) Dwelling Changes. 70 Right to Buy sales have been assumed during the budget period.
- (iii) Borrowing. Borrowing of £82.007 million has been assumed throughout the budget period, with a further £3.022 million of borrowing (to the Council's £85.029 million borrowing cap) in 2014-15.
- (iv) Interest Rates. The following interest rates for borrowing have been assumed:-
 - Existing debt of £18.287 million at the average rate of 6.5% per annum.
 - Existing debt of £3 million (November 2011 borrowing) at the average rate of 4.01% per annum.
 - Existing debt of £59.245 million (settlement payment borrowing) at 3.48% per annum.
 - New borrowing of £1.475 million (in respect of the Mill Green Land Appropriation) in 2013-14 at 5% per annum.
 - New borrowing of £3.022 million (for additional capital expenditure) in 2014-15 of the Business Plan at 5% per annum.
- (v) Void Rate. A void rate of 2% has been assumed for 2014-15 and a 1.5% rate for 2015-16 and 2016-17.

(vi) Inflation. The following rates have been assumed:-

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Rent Income	3.2%	2%	2%
Building Costs	4%	4%	4%
Energy Costs	5%	5%	5%
Other Expenditure	2%	2%	1%

Provision has also been made for additional employer contributions to the Staffordshire Pension Fund with effect from 2015-16 and additional National Insurance contributions with effect from 2016-17.

(vii) Responsive Repairs and Cyclical Maintenance. Unless otherwise stated a continuation of current policies and existing levels of service has been assumed throughout the budget period which includes:-

- The servicing of all gas and solid fuel heating appliances and the continuation of a “three star” maintenance service.
- A responsive repairs service delivered in accordance with current timescales.
- Works to void dwellings in accordance with the Council’s lettable standard.
- Annual contributions to reserve accounts to provide for:-
 - The replacement of door entry systems and sheltered housing scheme lifts and fire alarm systems when required.
 - The maintenance of the internal communal areas of flat blocks on a 7 year cycle.
 - A stock condition survey every five years

(Note: A stock condition survey should be undertaken in 2014 in accordance with this five year programme. The 2009 stock condition information has, however, been continually updated through Council surveys and it is therefore considered that an “external” sample condition survey (at an estimated cost of £90,000) is unnecessary at the present time. It is therefore proposed that the stock condition survey programmed for 2014-15 is postponed and as a consequence no provision has been made within the proposed HRA budget).

(viii) Housing Management. A continuation of current policies and existing level of service has been assumed throughout the budget period for housing management activities in respect of rent collection and arrears recovery, the allocation and letting of vacant dwellings, tenant participation and estate management including action regarding anti-social behaviour. The assumed level of service includes:-

- The provision of the current Vulnerable Tenants Grass Cutting and Internal Decoration service to households who are aged over 70 or who are in receipt of a defined benefit.

- The continued provision of the Benion Road area CCTV system.
 - The provision of an annual minor works budget.
 - The net cost of providing sheltered housing and communal alarm monitoring service following the estimated receipt of supporting people funding from Staffordshire County Council. (Note: In view of the expected reduction in supporting people funding for the communal alarm monitoring service additional HRA funding of £100,000 per annum has been assumed for 2015-16 and 2016-17.
 - Membership of the Housing Ombudsman Scheme.
- (ix) Discretionary Housing Payments. HRA expenditure contributions to the Council's Discretionary Housing Payments Scheme, of £50,000 in both 2014-15 and 2015-16 have been included to assist tenants affected by the Social Sector Size Criteria. This is a reduction on the amount included in the revised HRA Business Plan and reflects the reduced number of tenants who wish to transfer to a smaller property as a result of the Social Sector Size Criteria.
- (x) Working Balances. In view of the risks associated with the management of the HRA under self-financing a minimum working balance comprising 10% of annual expenditure has been assumed throughout the Business Plan period.
- (xi) Revenue Contributions to Capital Outlay (RCCO). In accordance with agreed policy any surplus above the minimum amount required in working balances has been utilised as a RCCO. As a result the following RCCO is assumed during the three year budget period:-

<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
£	£	£
4,541,250	4,861,890	5,108,930

5.10 The projected levels of income and expenditure for the three year budget period are summarised below:-

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
	£	£	£
Estimated Income	19,923,480	20,435,730	20,786,760
Estimated Expenditure	<u>19,911,700</u>	<u>20,411,750</u>	<u>20,762,840</u>
Transfer to working balances	11,780	23,980	23,920

Potential Enhancement of the Housing Service

5.11 Cabinet on 21 November 2013 were informed that the Business Plan review resulted in an estimated cumulative surplus of £1.349 million in 2016-17. This is potentially available to enhance the provision of the Council's housing service and Cabinet agreed to consider its use when formulating the proposed budgets for 2014-15 to 2016-17.

- 5.12 As a result of the 2013-14 HRA budget review and the detailed HRA budget formulation work for the period 2014-15 to 2016-17, a further £751,000 of additional expenditure capacity has now been identified during the three year budget period.
- 5.13 A total of £2.100 million is therefore potentially available to enhance the provision of the Council's housing service.
- 5.14 Following consultation with the Housing Portfolio Leader it is considered that this additional expenditure capacity should be used to enhance the HRA Capital Programme rather than services funded from the Housing Revenue Account. The £2.100 million has therefore been transferred to housing capital resources as an additional RCCO as part of the 2013-14 HRA budget review and the proposed HRA budgets for 2014-15 to 2016-17.
- 5.15 The potential use of the £2.100 million of additional expenditure capacity is therefore considered as part of the separate report entitled "Housing Revenue Account Capital Programmes 2014-15 to 2016-17, elsewhere on your agenda.

Effect on Working Balances

- 5.16 The effect of the proposed budgets on the estimated level of working balances is shown as part of Appendix 1. As previously stated a minimum working balance of 10% of net operating expenditure has therefore also been assumed throughout the three year budget period.
- 5.17 The level of working balances throughout the budget period is summarised below:-

<u>Working Balances</u>	<u>£</u>
At 31 March 2013	2,506,220
At 31 March 2014	1,519,320
At 31 March 2015	1,531,100
At 31 March 2016	1,555,080
At 31 March 2017	1,579,000

6 Implications

6.1 Financial

The financial implications have been referred to throughout the report.

6.2 Legal

None

6.3 Human Resources

The estimated budgets include provision for employees.

6.4 Section 17 (Crime Prevention)

Actions to combat anti-social behaviour on the Council's estates funded through the proposed budgets would have positive implications for crime prevention.

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

Self-financing increases the risks associated with the management of the HRA. In order that these risks can be managed Cabinet have revised the HRA Business Plan, which was approved by Council on 13 February.

The assumptions used to formulate the revised Business Plan have been subject to a revised risk analysis as set out in Appendix 5 to HRA Business Plan report to Cabinet on 21 November 2013. As the proposed HRA budgets for the period 2014-15 to 2016-17 have been formulated (unless otherwise stated) in accordance with the Business Plan assumptions, this risk analysis also applies to the proposed three year budget.

A number of actions are undertaken to further mitigate risks associated with the management of the HRA which include:-

- (i) The adoption of a prudent approach to budgeting.
- (ii) The maintenance of an adequate level of working balances, comprising a minimum of 10% of net operating expenditure.
- (iii) Housing Revenue Account Business Plan projections together with associated sensitivity analysis.
- (iv) Firm budgetary control through regular monitoring of actual and forecast income and expenditure.
- (v) The implementation of an annual internal Audit Plan and scrutiny from the External Auditor.

6.8 Equality & Diversity

The revised HRA Business Plan has been subject to an Equality Impact Assessment (EIA). As the proposed HRA budgets for the period 2014-15 to 2016-17 have been formulated in accordance with the revised Business Plan, the Business Plan EIA also applies to the proposed three year budget.

The outcome of the Business Plan EIA is that it would have a positive impact for certain of the protected characteristics with no identified negative implications.

6.9 Best Value

7 Appendices to the Report

Appendix 1: HRA Budget Review 2013-14 to 2016-17

Previous Consideration

Housing Revenue Account Business Plan Review	Cabinet	21 November 2013
Consultation on Rents for Social Housing from 2015-16	Cabinet	19 December 2013

Background Papers



APPENDIX 1

HRA Budget Review

	Original Budget 2013-14 £	Approved Budget 2013-14 £	Revised Budget 2013-14 £	Variance 2013-14 £
Income				
Dwelling Rent	(18,789,220)	(18,789,220)	(18,849,220)	(60,000)
Non Dwelling Rent	(413,100)	(413,100)	(413,100)	0
Interest	(1,460)	(1,460)	(1,460)	0
Other	(12,420)	(12,420)	(12,420)	0
General Fund Cont.	(45,690)	(45,690)	(45,690)	0
Total Income	(19,261,890)	(19,261,890)	(19,321,890)	(60,000)

Budget 2014-15 £	Budget 2015-16 £	Budget 2016-17 £
(19,450,140)	(19,961,480)	(20,302,070)
(413,490)	(413,550)	(423,320)
(1,460)	(1,470)	(1,490)
(12,700)	(13,080)	(13,270)
(45,690)	(46,150)	(46,610)
(19,923,480)	(20,435,730)	(20,786,760)

Expenditure

Discretionary Housing Payment	0	125,370	0	(125,370)
Repairs and Maintenance	4,268,990	4,268,990	4,239,540	(29,450)
Supervision and Management – General	3,243,510	3,243,510	3,251,680	8,170
Supervision and Management – Special	585,260	585,260	581,270	(3,990)
Increased provision for bad debts	200,900	200,900	200,900	0
Capital Financing	6,733,920	6,733,920	6,733,920	0
RCCO as per Business plan	4,210,650	4,210,650	5,086,210	875,560
Additional RCCO already agreed			100,000	100,000
Additional RCCO available			115,270	115,270
Total Expenditure	19,243,230	19,368,600	20,308,790	940,190
(Surplus) / Deficit	(18,660)	106,710	986,900	880,190

50,000	50,000	0
4,248,230	4,259,660	4,336,420
3,414,830	3,482,990	3,546,940
611,150	613,570	626,720
204,920	206,970	206,970
6,841,320	6,936,670	6,936,860
4,388,910	4,689,630	4,798,260
152,340	172,260	310,670
19,911,700	20,411,750	20,762,840
(11,780)	(23,980)	(23,920)

Working Balance

B/fwd	(1,487,047)	(1,487,047)	(2,506,220)	(1,019,173)
In year	(18,660)	106,710	986,900	880,190
C/fwd	(1,505,707)	(1,380,337)	(1,519,320)	(138,983)
Minimum Working Balance	1,505,700	1,505,700	1,519,320	

(1,519,320)	(1,531,100)	(1,555,080)
(11,780)	(23,980)	(23,920)
(1,531,100)	(1,555,080)	(1,579,000)
1,531,100	1,555,040	1,578,730