

Report of:	Head of Housing and Head of Finance
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Key Decision:	No
Report Track:	Cabinet 29/01/15 Council 11/02/15

**CABINET
29 JANUARY 2015
HOUSING REVENUE ACCOUNT BUDGETS 2015-16 TO 2017-18**

1 Purpose of Report

- 1.1 To review the 2014-15 Housing Revenue Account Budget
- 1.2 To introduce the Housing Revenue Account budgets for the period 2015-16 to 2017-18.
- 1.3 To determine proposed three year Housing Revenue Account Budget for consideration by Council on 11 February 2015.

2 Recommendations

- 2.1 That the revised position with regard to estimated income and expenditure in respect of the 2014-15 Housing Revenue Account Budget and base Housing Revenue Account budgets for the period 2015-16 to 2017-18 as summarised in Appendix 1 be noted.
- 2.2 That Council on 11 February 2015 be recommended to:-
 - (i) Determine a minimum level of working balances of £1,551,180 for 2015-16 and indicative working balances of £1,559,630 and £1,705,770 for 2016-17 and 2017-18 respectively.
 - (ii) Not to implement any rent increase for 2015-16
 - (iii) Enhance the base three-year Housing Revenue Account budgets through the provision of:-
 - (a) £400,000 for interest and loan repayment charges for additional potential borrowing approval
 - (b) An additional £1,940,000 Revenue Contribution to Capital outlay

- (iv) Approve the HRA Revenue Budgets for 2015-16, 2016-17 and 2017-18 (and note the estimated outturn for 2014-15) as summarised in Appendix 2 of the report.

3 Key Issues and Reasons for Recommendation

- 3.1 This report considers proposed three-year HRA budgets for 2015-16, 2016-17 and 2017-18, which has been formulated within the framework provided by the revised HRA Business Plan considered by Cabinet on 20 November 2014.
- 3.2 A review of the 2014-15 HRA budget, together with base HRA budgets for the period 2015-16 to 2017-18 are attached as Appendix 1. The base 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>2015-16</u> £000's	<u>2016-17</u> £000's	<u>2017-18</u> £000's
Estimated Income	20,782	21,132	24,413
Estimated Expenditure	20,584	20,444	20,587
Surplus (Deficit) in year	198	688	826
Working Balance	3,853	4,051	4,740
Minimum Working Balance	(1,551)	(1,559)	(1,706)
Estimated Surplus	2,500	3,180	3,860

- 3.3 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.
- 3.4 A total estimated cumulative surplus of £3,860,000 is available over the three-year budget period and can be utilised to :-
- (i) Reduce the rent increases which have been assumed within the base budgets.
- And/or
- (ii) Enhance the provision of the Council's Housing service.

- 3.5 Following consultation with the Housing Portfolio Leader, it is proposed that the surplus is utilised as follows:-
- (i) The 2.5% rent increase included in the base budget of 2015-16 is not implemented. This would result in a reduction in income (and in the cumulative surplus) of £1,520,000
 - (ii) Additional provision is made for:-
 - a. Interest and loan repayment charges in respect of additional potential borrowing approval (£400,000)
 - b. Revenue contribution to Capital outlay (£1,940,000)
- 3.5 The financial impact of the above proposals are set out within proposed HRA budgets for 2015-16 to 2017-18 attached as Appendix 2

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 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 20 November 2014 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 HRA budgets for the three-year period 2015-16 to 2017-18 have been formulated.
- 5.3 The proposed budgets reflect ongoing effects of the anticipated outturn in respect of the 2014-15 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 2014-15

- 5.4 A review of the 2014-15 budget is presented as part of Appendix 1

- 5.5 No changes are envisaged at the present time in relation to estimated income in 2014-15, which is expected to total £20,040,190 in accordance with the approved budget.
- 5.6 Estimated expenditure for 2014-15 is now forecast to be £19,455,370 compared to the approved budget estimate of £19,710,290. The reasons for this estimated net decrease in expenditure of £254,920 are set out below:
- (i) Repairs and Maintenance. Estimated additional expenditure of £50,000 on responsive repairs as a result of an increased need for plastering and fencing works
 - (ii) Supervision and Management. Estimated savings in respect of the provision for bad debts, leasing charges, and recharges, offset by an increase in pension contributions.
 - (iii) Revenue Contributions to Capital Outlay (RCCO) increased RCCO of £50,000 as a result of savings in respect of the Gas Maintenance budget.
- 5.7 As a result of these changes it is now estimated that £1,058,160 will be transferred from working balances in 2014-15. This compares to the estimated £803,240 to be transferred to working balances as part of the approved budget, an increase of £254,920.

Base Housing Revenue Account Budgets 2015-16 to 2017-18

- 5.8 Unless specifically stated the revised HRA Business Plan has been used as the basis for preparing the base HRA budgets for the period 2015-16 to 2017-18 which are attached as Appendix 1.
- 5.9 The base budgets have therefore been formulated in accordance with the following key assumptions:-
- (i) Rent Income. Annual rent increases in accordance with the revised national rent policy of the Consumer Price Index plus 1%. As a consequence a 2.5% increase has been applied for 2015-16, whilst a 2% increase has been assumed for both 2016-17 and 2017-18.
 - (ii) Dwelling Changes. 80 Right to Buy sales and 113 additional Council houses (as a result of new building) have been assumed during the budget period.
 - (iii) Borrowing. Total borrowing to the Council's revised borrowing cap of £86.044 million has been assumed throughout the budget period.
 - (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) at 5% per annum
- New borrowing of £1.015 million (for the Green Lane Housing Scheme) at 5% per annum.

(The above borrowing was planned to take place in 2014-15 and 2015-16 respectively however actual borrowing is likely to be rephased to later years subject to prevailing interest rates. The rephasing is likely to provide savings in relation to capital financing charges but these have not been reflected in the base budget at this stage)

- (v) Void Rate. A void rate of 1.5% has been assumed for 2015-16 and 2016-17, whilst a 2% rate has been assumed for 2017-18.
- (vi) Inflation. The following rates have been assumed:-

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
Rent Income	1.5%	1%	1%
Building Costs	4%	4%	4%
Energy costs	2%	2%	2%
Other Expenditure	1%	1%	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 with 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.
 - Periodic stock condition survey.
- (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, Social alarm and Internal Decoration series 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.
 - Member of the Housing Ombudsman Scheme.
- (ix) Discretionary Housing Payments. HRA expenditure contribution to the Council's Discretionary Housing Payments Scheme, of £50,000 in 2015-16 has been included to assist tenants affected by 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 of 10% of annual expenditure has been assumed throughout the Business Plan period.

Estimated Cumulative Surplus

- 5.10 Cabinet on 20 November 2014 were informed that the Business Plan review resulted in an estimated cumulative surplus of £3,220,000 in 2017-18 and agreed to consider its use when formulating the proposed HRA budgets for 2015-16 to 2017-18.
- 5.11 As a result of the 2014-15 HRA budget review and the detailed HRA budget formulation work for the period 2015-16 to 2017-18, an additional potential surplus of £640,000 has now been identified during the three-year budget period.
- 5.12 A total estimated cumulative surplus of £3,860,000 is therefore potentially available and can be utilised to:
- (i) Reduce the rent increases which have been assumed within the base budgets
And/or
 - (ii) Enhance the provision of the Council's Housing Service.

Rent Increases 2015-16 to 2017-18

- 5.13 Under the revised national rent policy (considered by Cabinet on 21 August 2014) the Council now have "the freedom" to determine any annual rent increase provided that this does not exceed the annual increase in the Consumer Price Index plus 1%.
- 5.14 Whilst a rent increase of 2.5% has been assumed within the 2015-16 base budget, the Council can determine a lower increase or decide not to increase rents for the forthcoming financial year.
- 5.15 If a lower percentage or no increase is determined this would reduce the estimated cumulative surplus as set out below:

% Increase	Average Rent Increase (per dwelling per week)	Estimated Reduction in the Cumulative Surplus
2.5%	£1.86	-
2.0%	£1.49	£304,000
1.5%	£1.12	£608,000
1.0%	£0.74	£912,000
No Increase	£-	£1,520,000

5.16 In view of the financial pressures faced by many of the Council's tenants who have relatively low incomes but do not qualify for housing benefit, the Housing Portfolio Leader proposes that cabinet recommend Council not to implement any rent increase for 2015-16

Potential Enhancements to the Council's Housing Service

5.17 Subject to no 2015-16 rent increase being agreed, £2,340,000 of the estimated cumulative surplus is potentially available to fund further enhancements to the Council's housing service.

5.18 During the current financial year the Council made a successful bid to the Department for Communities' and Local Government of £1,015,000 of additional borrowing approval. This formed part of a national £300 million fund which had been announced as part of the 2013 Autumn statement to help increase the supply of affordable housing and is to be used to part fund 21 additional Council dwellings at Green Lane, Rugeley.

5.19 Whilst no further increase to the national HRA borrowing limits were announced as part of the 2014 Autumn statement, it is possible that similar initiatives may form a part of the manifesto's in the "run up" to the 2015 general election. Should further such initiatives be proposed (and subsequently implemented) it is considered likely that they will again be restricted to the provision of additional affordable housing and would require a proportion of "matched funding" to be provided from existing resources.

5.20 Maximum borrowing to the Council's revised HRA self-financing borrowing cap forms part of the base budgets. However, not all Councils are using or wish to use all of the potential borrowing which they have available and it is understood that proposals to "redistribute" this to Councils who wish to have additional borrowing capacity are being considered.

5.21 Whilst the Council have an agreed programme to provide 113 additional Council dwellings during the three-year budget period, this will only meet some of the districts need for additional affordable housing. In view of this, the Housing

Portfolio Leader considers that the three-year HRA budgets should provide the necessary flexibility to ensure that the Council can take full advantage of any additional borrowing opportunities which may arise.

5.22 It is therefore proposed that in relation to the remaining £2,340,000 of additional expenditure capacity that:-

- (i) £400,000 is allocated within the Housing Revenue Account to meet the interest and loan repayment charges in respect of up to £2 million of additional borrowing approval (i.e. £200,000 per annum in 2016-17 and 2017-18).
- (ii) £1,940,000 is transferred to the HRA Capital Programme (through a Revenue contribution to Capital outlay) to meet any requirement for matched funding.

Proposed Housing Revenue Account Budgets 2015-16 to 2017-18

5.23 Proposed Housing Revenue Account Budgets for the period 2015-16 to 2017-18 are attached as Appendix 2. These assume no rent increase during 2015-16 and the use of £2,340,000 of additional expenditure capacity as set out in paragraph 5.22.

Effect on Working Balances

5.24 The effect of the proposed budgets on the estimated level of working balances is shown as part of Appendix 2. As previously stated a minimum working balance of 10% of net operating expenditure has therefore also been assumed throughout the three-year budget period.

5.25 The level of working balances throughout the budget period is summarised below:-

Working Balances	£
At 31 March 2014	1,531,100
At 31 March 2015	1,486,440
At 31 March 2016	1,551,180
At 31 March 2017	1,559,630
At 31 March 2018	1,705,770

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 form 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 on 20 November 2014 revised the HRA Business Plan.

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 20 November 2014. As the proposed HRA budgets for the period 2015-16 to 2017-18 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 though regular monitoring of actual and forecast income and expenditure.
- (v) The implementation of an annual internal Audit Plant 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 2015-16 to 2017-18 has 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

None

7 Appendices to the Report

Appendix 1: HRA Budgets 2014-15 to 2017-18

Appendix 2: Proposed HRA Budgets 2015-16 to 2017-18

Previous Consideration

Rent Setting Policy	Cabinet	21 August 2014
Housing Revenue Account Borrowing Programme _ Green Lane Housing Scheme	Cabinet	20 November 2014
Housing Revenue Business Plan Review	Cabinet	20 November 2014

Background Papers

ITEM NO. 10.11

APPENDIX 1

HRA Budget Review							
	Original Budget	Approved Budget	Revised Budget	Variance	Budget	Budget	Budget
	2014-15	2014-15	2014-15	2014-15	2015-16	2016-17	2017-18
Income	£	£	£	£	£	£	£
Dwelling Rent	(19,450,140)	(20,040,190)	(20,040,190)	-	(20,307,610)	(20,650,900)	(20,935,800)
Non Dwelling Rent	(413,490)	(413,490)	(413,490)	-	(413,550)	(419,870)	(415,460)
Interest	(1,460)	(1,460)	(1,460)	-	(1,470)	(1,490)	(1,500)
Other	(12,700)	(12,700)	(12,700)	-	(13,080)	(13,270)	(13,410)
General Fund Contribution	(45,690)	(45,690)	(45,690)	-	(46,150)	(46,610)	(47,080)
Total Income	(19,923,480)	(20,513,530)	(20,513,530)	-	(20,781,860)	(21,132,140)	(21,413,250)
Expenditure							
Discretionary Housing	50,000	50,000	50,000	-	50,000	-	-
Repairs and Maintenance	4,248,230	4,207,340	4,257,340	50,000	4,190,080	4,193,200	4,213,740
Supervision & Man – General	3,619,750	3,890,730	3,535,810	(354,920)	3,725,210	3,805,780	3,899,020
Supervision & Man – Special	611,150	597,560	597,560	-	623,330	628,350	634,650
Capital Financing	6,841,320	6,423,660	6,423,660	-	6,923,180	6,969,010	8,310,310
RCCO	4,541,250	4,541,000	4,591,000	50,000	5,072,210	4,847,350	3,529,390
Total Expenditure	19,911,700	19,710,290	19,455,370	(254,920)	20,584,010	20,443,690	20,587,110
(Surplus) / Deficit	(11,780)	(803,240)	(1,058,160)	(254,920)	(197,850)	(688,450)	(826,140)

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APPENDIX 2

HRA Budget Review							
	Original Budget	Approved Budget	Revised Budget	Variance	Budget	Budget	Budget
	2014-15	2014-15	2014-15	2014-15	2015-16	2016-17	2017-18
Income	£	£	£	£	£	£	£
Dwelling Rent	(19,450,140)	(20,040,190)	(20,040,190)	-	(19,807,610)	(20,150,900)	(20,415,800)
Non Dwelling Rent	(413,490)	(413,490)	(413,490)	-	(413,550)	(419,870)	(415,460)
Interest	(1,460)	(1,460)	(1,460)	-	(1,470)	(1,490)	(1,500)
Other	(12,700)	(12,700)	(12,700)	-	(13,080)	(13,270)	(13,410)
General Fund Contribution	(45,690)	(45,690)	(45,690)	-	(46,150)	(46,610)	(47,080)
Total Income	(19,923,480)	(20,513,530)	(20,513,530)	-	(20,281,860)	(20,632,140)	(20,893,250)
Expenditure							
Discretionary Housing Pay	50,000	50,000	50,000	-	50,000	-	-
Repairs and Maintenance	4,248,230	4,207,340	4,257,340	50,000	4,190,080	4,193,200	4,213,740
Supervision & Man. – General	3,619,750	3,890,730	3,535,810	(354,920)	3,725,210	3,805,780	3,899,020
Supervision & Man – Special	611,150	597,560	597,560	-	623,330	628,350	634,650
Capital Financing	6,841,320	6,423,660	6,423,660	-	6,923,180	7,169,010	8,510,310
RCCO	4,541,250	4,541,000	4,591,000	50,000	7,072,210	4,827,350	3,488,390
Total Expenditure	19,911,700	19,710,290	19,455,370	(254,920)	22,584,010	20,623,690	20,746,110
(Surplus) / Deficit	(11,780)	(803,240)	(1,058,160)	(254,920)	2,302,150	(8,450)	(147,140)

HRA Budget Review – Working Balances							
	Original Budget	Approved Budget	Revised Budget	Variance	Budget	Budget	Budget
Working Balance	2014-15	2014-15	2014-15	2014-15	2015-16	2016-17	2017-18
	£	£	£	£	£	£	£
B/fwd.	(1,519,320)	(2,795,170)	(2,795,170)	-	(3,853,330)	(1,551,180)	(1,559,630)
In year	(11,780)	(803,240)	(1,058,160)	(254,920)	2,302,150	(8,450)	(147,140)
C/fwd.	(1,531,100)	(3,598,410)	(3,853,330)	(254,920)	(1,551,180)	(1,559,630)	(1,706,770)
Minimum Working Balance	1,531,100	1,516,930	1,486,440		1,551,180	1,559,630	1,705,770