

Report of:	Head of Housing and Head of Finance
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Key Decision:	No
Report Track:	Cabinet: 01/02/16 Council: 16/02/16

CABINET
1 FEBRUARY 2016
HOUSING REVENUE ACCOUNT BUDGETS 2016-17 TO 2018-19

1 Purpose of Report

- 1.1 To review the 2015-16 Housing Revenue Account Budget
- 1.2 To refresh the Housing Revenue Account budgets for the period 2016-17 to 2017-18 and introduce the 2018-19 Draft Budget.
- 1.3 To determine the proposed three year Housing Revenue Account Budget for consideration by Council on 16 February 2016.

2 Recommendations

- 2.1 That the revised position with regard to estimated income and expenditure in respect of the 2015-16 Housing Revenue Account Budget and Housing Revenue Account budgets for the period 2016-17 to 2018-19 as summarised in Appendix 1 be noted.
- 2.2 That Council on 16 February 2016 be recommended to:-
 - (i) Determine a minimum level of working balances of £1,546,310 for 2016-17 and indicative working balances of £1,710,770 and £1,767,810 for 2017-18 and 2018-19 respectively.
 - (ii) To note the 1% reduction in rents in 2016-17 in accordance with the Governments Social Rent Policy
 - (iii) Approve the HRA Revenue Budgets for 2016-17, 2017-18 and 2018-19 (and note the estimated outturn for 2015-16) 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 2016-17, 2017-18 and 2018-19, which has been formulated within the framework provided by the Interim Review of Housing Revenue Account Business Plan considered by Cabinet on 10 December 2015.
- 3.2 A review of the 2015-16 HRA budget, together with base HRA budgets for the period 2016-17 to 2018-19 are attached as Appendix 1. The 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.

Table 1: HRA Summary Budget 2016-17 to 2018-19			
	<u>2016-17</u> £000's	<u>2017-18</u> £000's	<u>2018-19</u> £000's
Income	(19,838)	(19,718)	(19,520)
Expenditure	15,463	17,108	17,678
Revenue Contribution to Capital Outlay	4,353	2,446	1,785
Surplus in Year/ Working Balances	(22)	(164)	(57)
Deficit in Year			

- 3.3 In considering the HRA Revenue Account, consideration needs to be given to the HRA Capital Programme and the level of Working Balances. A key consideration of the Capital Programme is the Revenue Contribution to Capital Outlay (RCCO). In accordance with the Interim Business Plan the RCCO represents the net surplus on the Revenue Account after determining the level of Working Balances.
- 3.4 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.
- 3.5 The Working Balances position can be summarised as follows :

Table 2 : Working Balances Summary 2015-16 to 2018-19				
	<u>2015-16</u> £000's	<u>2016-17</u> £000's	<u>2017-18</u> £000's	<u>2018-19</u> £000's
Balance B/fwd.	3,626	1,524	1,546	1,711
Minimum Amount required	1,524	1,546	1,711	1,768
Transfer to RCCO in year	(2,102)			
Amount of Surplus to be retained		22	165	57
Balance C/fwd.	1,524	1,546	1,711	1,768

4 Relationship to Corporate Priorities

- 4.1 The proposed HRA budgets would contribute to the following strategic objectives, which form part of the Housing Portfolio section within the 2016-17 “More and Better Housing” Priority Delivery Plan, i.e.
- (i) Increase the supply of affordable housing.
 - (ii) Improving the Council’s social housing stock

5 Report Detail

- 5.1 Cabinet on 10 December 2015 considered an Interim Housing Revenue Account Business Plan for the continued implementation of the devolved HRA “self financing system”. The interim plan covered the period 2016-17 to 2019-20 and followed the announcement in the Governments Summer Budget that a 1% reduction in rents for 4 years ,commencing April 2016, would be included in the Housing and Planning Act 2015 which would result in a loss of £5.9 million to Year 8 (2019-20) and £2.3 million per annum ongoing.
- 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 2016-17 to 2018-19 have been formulated. The major revenue impact of the interim review was the deletion of the capital financing requirement set aside for £2m million of additional borrowing requirement to fund new council houses (2016-17 onwards of £200,000 per annum).
- 5.3 In addition to the above the proposed budgets reflect ongoing effects of the anticipated outturn in respect of the 2015-16 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.
- 5.4 The analysis of Management has been reviewed to reflect the latest CIPFA analysis between Supervision and Management General and Supervision and Management Specific and as such is a reclassification and does not reflect additional costs.

The Housing Revenue Account Budget 2015-16

- 5.5 A review of the 2015-16 Budget is presented as part of Appendix 1
- 5.6 The budget has been refreshed to reflect the latest stock numbers with changes made to Dwellings Rent, Garage Rents and Repairs Budgets.
- 5.7 A detailed review of employee budgets has also been undertaken with the latest budgets reflecting the staff turnover experienced in recent years.
- 5.8 Estimated expenditure for 2015-16 is now forecast to be £22,286,570 and Income £20,184,480 with a resultant transfer from Working Balances of £2,102,090
- 5.9 The original budget assumed that the transfer from Working balances (£2,302,150), representing the Surplus of Working Balances above the minimum required, would be used in 2015-16 to supplement the Revenue Contribution to Capital Outlay (which initially stood at £4,770,060).

5.10 The transfer has reduced as a result of the revised Balance B/fwd. as at 1 April 2015 (reflecting the outturn for 2014-15 as reported to Cabinet in July 2015) of £226,980 and has been partly offset by savings in year.

Housing Revenue Account Budgets 2016-17 to 2018-19

5.11 The 30 year HRA Business Plan, as amended by the Interim Review undertaken in the current year, has been used as the basis for preparing the HRA budgets for the period 2016-17 to 2018-19 which are attached as Appendix 1.

5.12 The budgets reflect a continuation of current policies and the maintenance of existing service provision throughout the budget period.

5.13 Provision has been made for inflation and cost pressures with in particular additional National Insurance contributions arising from 2016-17. In addition employer contributions to the Staffordshire Pension Fund have been assumed to increase by 2% per annum, subject to the actual rate being determined by the 2016 Actuarial Revaluation with revised rates applying from 2017-18.

5.14 The material change to the original /indicative estimates, as approved in February 2015, relate to Rent Income. An annual rent reduction of 1% per annum is reflected in the attached estimates with a further 1% reduction to take place in 2019-20 reflecting the revised national rent policy as determined by the Government’s 2015 Summer Budget (the rent policy will revert to the Consumer Price Index plus 1% with effect from 2020-21).

5.15 The reduction in resources of £5.9 million over the four year period as necessitated the deletion of the £2,340,000 additional enhancements, as included in last years budget, as follows.-

- (i) £400,000 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 2017-18 and 2018-19).
- (ii) £1,940,000 Revenue Contribution to Capital Outlay to meet any requirement for matched funding.

5.16 The impact of the above was reflected in the Interim Business Plan with additional changes since that date identified in the movement in Revenue Contributions to Capital Outlay.

5.17 A comparison of the latest Revenue Contribution to Capital Outlay (which effectively represents the net income of the HRA account) from the Interim Business Plan to the Draft Budget is reflected in Table below.

Table 3: Reconciliation of RCCO – Interim Business Plan to Draft Budget			
	2016-17	2017-18	2018-19
	£000	£000	£000
Interim Financial Plan	4,229	2,496	1,677

Draft Budget	4,353	2,446	1,785
Variance	(124)	50	(108)

- 5.18 The budget has been refreshed to reflect the latest stock numbers with minor changes made to Dwellings Rent, Garage Rents and Repairs Budgets whereas Capital Financing Charges reflect the achievement of the revised borrowing cap of £86.044 million during the budget period and the relevant repayment of principal.
- 5.19 Savings in Management costs arise from a review of staff turnover and other budgets as referred to in paragraph 5.7 .The repairs costs for 2017-18 have been increased to reflect the full year impact of the NI and Super contribution costs for the Fixed Sum element of the service, and a reallocation of de- Minimis amounts from the capital programme.
- 5.20 No account has been taken at this stage for the impact of Vacant High Value Housing Payments and High Income Social Tenants: Mandatory Rents (Pay to Stay) as contained in the Housing and Planning Bill. The full impact of the above changes will be assessed following publication of the proposed regulations and will then be subject to further reports.

Proposed Housing Revenue Account Budgets 2016-17 to 2018-19

- 5.21 Proposed Housing Revenue Account Budgets for the period 2016-17 to 2018-19 are attached as Appendix 1

Effect on Working Balances

- 5.22 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.
- 5.23 The level of working balances throughout the budget period is summarised below:-

Working Balances	£
At 31 March 2015	3,626,350
At 31 March 2016	1,524,260
At 31 March 2017	1,546,310
At 31 March 2018	1,710,770
At 31 March 2019	1,767,810

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 and a detailed risk analysis forms part of the 30 Year Business Plan.

The risks relate to income as well as expenditure and any change in Government policy will impact upon the balances available to support the Capital Programme. In particular the implementation of Vacant High Value Housing Payments and High Income Social Tenants: Mandatory Rents (Pay to Stay) as contained in the Housing and Planning Bill in relation to Cannock Chase Council will impact upon income levels.

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, particularly rent income
- (ii) The maintenance of an adequate level of working balances, comprising a minimum of 10% of net operating expenditure. Due to the reduction in rent levels and increase in cost pressures working balances will increase in 2017-18 enabling a contingency to be provided in the short term to meet the potential implications of the Housing and planning Bill
- (iii) The adoption of a more realistic approach in assessing staff turnover in determining employee budgets.
- (iv) Housing Revenue Account Business Plan projections together with associated sensitivity analysis.
- (v) Firm budgetary control though regular monitoring of actual and forecast income and expenditure.
- (vi) The implementation of an annual Internal Audit Plan and scrutiny from the External Auditor.

6.8 Equality & Diversity

The draft budget, subject to the deletion of the provision for further enhancements as outlined in the 2015-16 budget report, reflect a continuation of current policies and the maintenance of existing service provision throughout the budget period.

6.9 Best Value

None

7 Appendices to the Report

Appendix 1: HRA Budgets 2015-16 to 2018-19

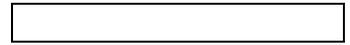
Previous Consideration

Interim Review of Housing
Revenue Business Plan

Cabinet

10 December 2015

Background Papers



ITEM NO. 13.8

APPENDIX 1

HRA Budget Review							
	Original Budget	Approved Budget	Revised Budget	Variance	Budget	Budget	Budget
	2015-16	2015-16	2015-16	2015-16	2016-17	2017-18	2018-19
Income	£	£	£	£	£	£	£
Dwelling Rent	(19,807,610)	(19,678,520)	(19,743,100)	(64,580)	(19,401,890)	(19,287,770)	(19,089,370)
Non Dwelling Rent	(413,550)	(411,030)	(387,380)	23,650	(381,350)	(375,080)	(375,080)
Interest	(1,470)	(1,470)	(1,470)		(1,490)	(1,500)	(1,500)
Other	(13,080)	(15,500)	(15,500)		(15,690)	(15,830)	(16,150)
General Fund Contribution	(46,150)	(37,030)	(37,030)		(37,520)	(37,900)	(38,280)
Total Income	(20,281,860)	(20,143,550)	(20,184,480)	(40,930)	(19,837,940)	(19,718,080)	(19,520,380)
Expenditure							
Discretionary Housing Payment	50,000	50,000	50,000	0			
Repairs and Maintenance	4,190,080	4,130,430	4,216,400	85,970	4,173,690	4,470,250	4,580,340
Supervision & Management							
– General	3,725,210	3,419,310	3,252,470	(166,840)	3,448,560	3,525,060	3,607,050
– Special	623,330	945,400	945,390	(10)	967,280	988,740	1,010,380
Total Management	4,348,540	4,364,710	4,197,860	(166,850)	4,415,840	4,513,800	4,617,430
Capital Financing	6,923,180	6,828,350	6,828,350		6,873,600	8,123,710	8,480,380
RCCO	7,072,210	7,072,210	6,993,960	(78,250)	4,352,760	2,445,860	1,785,190
Total Expenditure	22,584,010	22,445,700	22,286,570	(159,130)	19,815,890	19,553,620	19,463,340
Working Balance transfer	(2,302,150)	(2,302,150)	(2,102,090)	200,060	22,050	164,460	57,040

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Appendix 1 Ctd

HRA Budget Review							
	Original Budget	Approved Budget	Revised Budget	Variance	Budget	Budget	Budget
Working Balance	2015-16	2015-16	2015-16	2015-16	2016-17	2017-18	2018-19
	£	£	£	£	£	£	£
B/fwd.	(3,853,330)	(3,626,350)	(3,626,350)	226,980	(1,524,260)	(1,546,310)	(1,710,770)
In year	2,302,150	2,302,150	2,102,090	(200,060)	(22,050)	(164,460)	(57,040)
C/fwd.	(1,551,180)	(1,324,200)	(1,524,260)		(1,546,310)	(1,710,770)	(1,767,810)
Minimum	1,551,180	1,532,350	1,524,260		1,546,310	1,710,770	1,767,810