

 Executive 11 December 2013		Agenda Item No. 6
Title	Housing Revenue Account base budgets latest 2013/14 and base 2014/15	
For further information about this report please contact	Mark Smith mark.smith@warwickdc.gov.uk 01926 456803	
Wards of the District directly affected	All	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	
Date and meeting when issue was last considered and relevant minute number		
Background Papers	Executive 6 March 2012 – ‘Housing Revenue Account Draft Business Plan’ 2012–2062 and Self Financing; Executive 9 October 2013 – ‘Fees and Charges 2014/15’; Executive 13 November 2013 – ‘Budget Review to 30 th September 2013’; Executive 11 December 2013 – ‘The new HRA Business Plan 2013–2062’	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes Ref 500
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	21-Nov-2013	
Head of Service	n/a	Finance Report
CMT	21-Nov-2013	
Section 151 Officer	27-Nov-2013	Mike Snow
Monitoring Officer		
Finance	n/a	Finance Report
Portfolio Holder(s)	27-Nov-2013	Councillor Vincett
Consultation Undertaken		
None		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

- 1.1 This report presents the HRA 2013/14 latest and 2014/15 base budgets. It does not commit to any rent increase; a Rent Setting Report will be presented to the Executive in February 2014 which will recommend Housing Rents 2014/15 to Council.
- 1.2 Appendix A summarises the adjustments from 2013/14 base budgets to 2013/14 latest budgets and 2014/15 base budgets.
- 1.3 Appendix B provides additional details of the budget changes for Supervision and Management, which form a major item included in Appendix A.
- 1.4 Appendix C provides the detailed HRA revenue budgets along with details of the key budget changes.

2. RECOMMENDATIONS

- 2.1 To recommend to Council:
 - (a) the latest revenue budget for Housing Revenue Account services in respect of 2013/14 as outlined in Appendix C;
 - (b) the base revenue budget for Housing Revenue Account services in respect of 2014/15 as outlined in Appendix C.
 - (c) the transfer of Asbestos Works and Paths and Surfacing from the capital Housing Investment Programme (HIP) to revenue repairs and Asbestos programme management consultancy/advice, with associated changes to repairs supervision and financing.

3. REASONS FOR THE RECOMMENDATION

- 3.1 To determine the base budget requirements that will be used in the setting of Council Housing Rents for 2014/15 in February of next year. This report presents the proposed Base Budget for 2014/15. These figures reflect the costs of maintaining the current level of service, and any unavoidable changes in expenditure (for example, where the Council is contractually or statutorily committed to incur additional expenditure). The report also considers the current year's budget, and includes details of proposed updates to the 2013/14 Budget.
- 3.2 In advance of February, opportunities for Service Developments, efficiency requirements and the levels of rent can be determined in light of this base position.
- 3.3 Any recent changes that need to be resolved that have not been included in the budgets at this stage will be fed into the February report. In February the Council will be in a position to agree the 2014/15 Budget and council housing rents for the year.
- 3.4 To agree the latest 2013/14 budgetary position. Since these original Budgets were set some 12 months ago, many changes have been identified. Managers

consider their Budgets monthly and most of these changes have already been reported to Members as part of the Quarterly Budget Review Reports in August and November of this year. Further amendments have also been identified during the rigorous review to determine next year's base position.

- 3.5 Asbestos Works and Paths and Surfacing should be categorised as revenue repairs rather than capital because the works currently being carried out are predominantly maintenance rather than enhancement.
- 3.6 A fixed term budget for Asbestos Programme management was established in the 'Service Improvement Plan' approved by Executive in February 2011. This budget ends during 2013/14; however Property Services have determined it will not be possible to manage this essential programme effectively without extending asbestos management/consultancy support until March 2015. It is estimated this will cost an additional £18,900 in 2013/14 and £52,000 in 2014/15; these costs will be offset by a reduction in the budget agreed for Asbestos Works.

4. POLICY FRAMEWORK

4.1 Policy Framework

The Housing Revenue Account (HRA) latest base budget 2013/14 and base budget 2014/15 report forms part of the Budgetary Framework which is the resource strategy for implementing Fit for the Future. This report is in accordance with the Council's Financial Strategy as last approved by the Executive in February and 'Budget Review to September 2013' report in November 2013.

4.2 Fit For the Future

A key element of Fit for the Future is ensuring that the Council achieves the required savings to enable it to set a balanced General Fund Budget whilst maintaining service provision. The Housing Revenue Account is subject to the same regime to ensure efficiency within the service and value for money for tenants.

4.3 HRA Business Plan

Under 'Self Financing' the HRA has taken on significant debt, but has gained greater capacity to provide new homes and invest in the service. The HRA Business Plan projects income and expenditure over 50 years to demonstrate the ability to repay the debt and provide new homes. The base budget for 2014/15 is calculated from the projections contained in the latest HRA Business Plan.

4.4 Rent policy

The 'base' housing rent increase for 2014/15 is based upon the current national 'Rent Restructuring' calculation. Council will decide the actual rent increase for 2014/15 in February 2014.

Central Government is currently consulting on a new national social rent policy, which would apply from 2015/16.

This has no direct impact upon 2014/15 rents; however the proposed limit on rent increases effectively abolishes the current 'Rent Restructuring' process from 2015/16, meaning it will be impossible to reach target social rents through normal annual increases.

The HRA Business Plan and base 2014/15 budget are therefore based on the assumption that void homes will be moved to target social rent when re-let; this would be a change from the council's current rent policy. However this may be the only way rents can move towards target social rents if, as expected, the new rent policy proposed by Central Government is implemented (see paragraph 8.2.2). Any decision on changing this policy will be made by Council in February 2014 as part of the Rent Setting process.

5. BUDGETARY FRAMEWORK

- 5.1 Members are reminded that the 2014/15 Council Housing Rents will be set in February after budgets are finalised.
- 5.2 For the setting of base 2014/15 revenue budgets, no inflation has been added other than where contracted or unavoidable. This is consistent with the approach for General Fund Services. Savings from efficiencies are consistent with the HRA Business Plan 2013-2062.
- 5.3 The HRA balance is maintained at a working balance of £1.3m, increased by inflation each year to preserve the real value as per the HRA Business Plan. Any additional resources generated in year are transferred to the HRA Capital Investment Reserve, to allow future investment in the service, including providing new homes.
- 5.4 To put the contributions to the HRA Capital Investment Reserve into context, the budgeted contributions in 2013/14 and 2014/15 together approximately replace the amount already committed to redeveloping a housing scheme, as approved December 2012.
- 5.5 Asbestos Works and Paths and Surfacing are currently included within the Housing Investment Programme as capital works, and financed from a Revenue Contribution to Capital Outlay (RCCO). This work should be charged to revenue as it is part of maintaining the relevant assets, not enhancing them. As part of this transfer, the Capital Salaries for managing this work will be moved into Housing Supervision & Management (General) and recharged as Housing Repairs Supervision.
The budgets being transferred total £539,600 in 2013/14 and £689,600 in 2014/15. In re-categorising this work, the associated financing will need to be transferred.

6. ALTERNATIVE OPTION CONSIDERED

- 6.1 The purpose of this report is to produce budgets as determined under the requirements of the Financial Strategy. Any alternative strategies will be the subject of separate reports.

7. BACKGROUND

7.1 The report is broken down into the following sections and appendices:

Section 8	2014/15 Base Budgets
Section 9	2013/14 Latest Budgets
Section 10	Conclusion
Appendix A	Analysis of HRA Budget Movements
Appendix B	Analysis of HRA Supervision & Management Budget Movements
Appendix C	HRA Revenue Budgets, also listing key budget variations
Appendix D	Glossary of Terms

7.2 The proposed 2014/15 Base Budgets and 2013/14 Latest Budgets are shown below. More detail is given in Appendix C.

	ORIGINAL BUDGET 2013/14 £	LATEST BUDGET 2013/14 £	BASE BUDGET 2014/15 £
Supervision & Mgt - General (App'x C6, C7)	2,785,600	2,887,300	2,497,200
Supervision & Mgt - Special (App'x C8-C11)	2,233,000	2,281,200	2,308,800
Supervision & Management subtotal	5,018,600	5,168,500	4,806,000
Premises	4,919,200	5,478,600	5,224,100
Supplies and Services	728,700	200,900	350,300
Capital Charges	2,694,300	2,686,000	2,837,900
TOTAL EXPENDITURE	13,360,800	13,534,000	13,218,300
Housing Rents	(24,461,500)	(24,420,500)	(25,768,500)
Other Income	(1,688,700)	(1,694,500)	(1,682,200)
TOTAL INCOME	(26,150,200)	(26,115,000)	(27,450,700)
NET COST OF HRA SERVICES	(12,789,400)	(12,581,000)	(14,232,400)
Other Operational Expenditure/Income	4,085,300	4,112,500	4,116,000
NET OPERATIONAL EXPEND./ (INCOME)	(8,704,100)	(8,468,500)	(10,116,400)
Below the Line adjustments	3,840,800	3,262,000	3,048,400
Contribution to HRA Capital Investment Reserve	4,709,200	5,165,500	7,028,300
TAKEN FROM / (TO) HRA BALANCES	(154,100)	(41,000)	(39,700)

7.3 Section 8 of this report considers in more detail the 2014/15 Base Budgets, with Section 9 looking at the 2013/14 Latest Budgets.

7.4 The Housing Revenue Account, (HRA), is a statutory account which itemises all of the income, expenditure and capital charges relevant to the Council's landlord function as a provider of social housing.

7.5 Current Base Budgets for this account show a surplus of £39,700 for 2014/15. This is simply the amount added to HRA balances to maintain the real value of this working capital after allowing for estimated general inflation.

In addition £7.0m is transferred to the HRA Capital Investment Reserve, to fund future capital investment.

- 7.6 Appendix A highlights the main changes to the 2 years proposed budgets. The budgets and explanations for variations are shown in sections 'C4' and 'C5' of Appendix C.
- 7.7 'Supervision and Management' - totalling £4.8m for 2014/15, as shown in the table above - is an integral part of the HRA. 'Supervision and Management' budgets are shown in Appendix C, sections 'C6' to 'C11'. Appendix B shows a summary of the key budgetary changes.
- 7.8 'Supervision and Management - General' includes central services applicable to all tenants, such as rent collection, tenancy management and tenant participation.
- 7.9 'Supervision and Management - Special' consists of the provision of services to groups of tenants, such as the Warwick Response and warden services, together with caretaking and communal lighting in blocks of flats.

8. 2014/15 BASE BUDGET

- 8.1 In determining the 2014/15 Base Budget, the over-riding principle is to budget for the continuation of services at the existing level. The following adjustments need to be made to the 2013/14 Original Budgets.

Removal of any one-off and temporary items
 Addition of inflation (contractual services only)
 Addition of previously agreed Growth items
 Addition of unavoidable Growth items
 Inclusion of any identified savings

- 8.2 The table below summarises how the 2014/15 HRA base budget has been calculated. Appendix A provides a summary of major changes; Appendix C provides a more detailed analysis of net expenditure for the service.

	£
ORIGINAL APPROVED NET HRA SURPLUS 2013/14	(154,100)
<u>Adjustments:</u>	
Inflation	0
Committed Growth	230,400
Income Reductions	6,500
Savings	(843,700)
Increased Income	(1,307,000)
Cost Neutral Transfers within HRA	(49,300)
Changes in Supervision & Management (see para 8.3 below)	(212,600)
Remove IAS 19 Adjustments within Supervision & Management	(29,000)
Change in contribution to HRA Capital Investment Reserve	2,319,100
BASE NET HRA SURPLUS 2014/15	(39,700)

8.2.1 Inflation

No inflation has been applied to budgets, apart from those where the Council is legally contracted to do so.

8.2.2 Rents

It should be noted that the base rent budget in this report is a baseline calculated from the rental assumptions presented in the HRA Business Plan.

The actual rents to be charged in 2014/15 and the Council's rent policy will be decided by Council in February 2014, and budgets will be updated to reflect those decisions.

For base 2014/15 budgets, housing rents have been increased by an average of 6.0% in line with the September inflation figure of 3.2%, plus 0.5%, plus the necessary amount for the move towards 'Target' (Formula) Social Rents as per the current national 'Rent Restructuring' calculation (which applies up to 2014/15). This base position is in line with the HRA Business Plan.

Central Government has recently issued a consultation on a new Social Rent formula to apply from 2015/16 rent setting; this therefore has no direct impact upon 2014/15 rents. However the limit on rent increases expected to apply from 2015/16 onwards effectively abolishes 'Rent Restructuring' before it is completed, removing the Council's ability to gradually move towards the 'Target' (Formula) Social Rent through annual rent increases after 2014/15. Compliance with this new policy will be encouraged by use of the 'limit rent control on housing benefit expenditure' to claw back income in excess of the limit.

Central Government states in the consultation 'we expect authorities to adhere to the limit on rent changes, but to move the rent up to formula rent where the property is re-let following vacancy.'

Therefore the HRA Business Plan and 2014/15 base budgets assume that from April 2014 homes will be moved to 'Target' (Formula) Social Rent when re-let. This would be a change to the Council's current rent policy; options will be considered in more detail in the February 2014 Rent Setting report, so any changes can be decided by Council.

Budgeted rental income has been increased by improved void performance, but decreased by increased sales of homes under 'Right to Buy' - driven by Central Government increasing the maximum Right To Buy discount to £75,000.

Overall 2014/15 housing rental income is projected to be £1.3m higher than 2013/14, based upon the base Business Plan assumptions detailed above.

8.2.3 Transfer to Bad Debt Provision

The transfer to the bad debt provision has been significantly reduced due to delays in the implementation of universal credit, and improved arrears performance - despite the introduction of benefits reduction for the spare room subsidy/'bedroom tax'.

8.2.4 Staffing

Staffing costs are based upon the current structure of the service, taking into account savings from 'phase 1' of the Housing & Property service redesign and the end of fixed term posts agreed in the 'Service Improvement Plan'; but

extending Asbestos Programme management consultancy and advice until March 2015.

Base budgets do not include any estimate of the effect of the forthcoming 'phase 2' of the Housing & Property service redesign, or any potential interim arrangements other than those already included in the November 2013 'Budget Review' report.

8.2.5 Growth / Income Reductions

Only unavoidable and previously committed growth has been included in the Base Budget.

8.2.6 HRA Capital Investment Reserve

Any HRA surplus above that required to maintain the appropriate HRA working balance is transferred into the HRA Capital Investment Reserve to be used on future HRA capital projects.

8.2.7 Revenue Contribution to Capital Outturn (RCCO)

The RCCO necessary to fund Capital Works is calculated taking into account all Housing Improvement Programme (HIP) changes approved by members to date, transferring Asbestos Works and Paths and Surfacing to revenue, and removing general inflation from all budgets in line with the HRA Business Plan. An updated HIP will be presented in February 2014.

8.3 The table below summarises how the 2014/15 Supervision and Management base budget has been calculated, (this is included as part of the HRA budget detailed in the Table above). Appendix 'B' provides a summary of major changes, Appendix 'C' provides a more detailed analysis of net expenditure for the service.

ORIGINAL BUDGET	£
SUPERVISION & MANAGEMENT 2013/14 (Net Cost)	5,018,600
<u>Adjustments:</u>	
Inflation	0
Committed Growth	3,500
Staffing	(35,200)
Savings	(58,500)
Income	(110,300)
Cost Neutral Transfers within HRA	49,300
Changes in Support Service Recharges	(90,400)
IAS19 Adjustments	29,000
BASE SUPERVISION & MANAGEMENT BUDGET 2014/15	4,806,000
Overall decrease in expenditure (within HRA)	(212,600)

8.4 Appendix C provides details of service expenditure and income. Explanations are provided where significant variations have been identified. Summary information is provided graphically in sections 'C2' & 'C3'.

9. LATEST BUDGETS 2013/14

- 9.1 A review of the 2013/14 budget has also been carried out in order to establish the latest budget for the current year. This then informs the base position for 2014/15 as described in Paragraph 8.1 above. Appendix A provides a summary of major changes; Appendix C provides a more detailed analysis of net expenditure for the service.
- 9.2 The table below summarises how the latest 2013/14 HRA budget has been calculated:

	£
ORIGINAL APPROVED NET HRA SURPLUS 2013/14	(154,100)
<u>Adjustments:</u>	
Inflation	0
Committed Growth	232,700
Income Reductions	51,900
Savings	(582,300)
Increased Income	(33,400)
Cost Neutral Transfers within HRA	(47,400)
Changes in Supervision & Management (see para. 9.3 below)	149,900
Remove IAS 19 Adjustments within Supervision & Management	(30,400)
Contribution from Early Retirement Reserve	(84,200)
Change in contribution to HRA Capital Investment Reserve	456,300
LATEST NET HRA SURPLUS 2013/14	(41,000)

- 9.3 The table below summarises how the latest 2013/14 Supervision and Management budget has been calculated, (this is included as part of the HRA budget detailed in the Table above). Appendix B provides a summary of major changes; Appendix C provides a more detailed analysis of net expenditure for the service.

	£
ORIGINAL BUDGET	
SUPERVISION & MANAGEMENT 2013/14 (Net Cost)	5,018,600
<u>Adjustments:</u>	
Inflation	0
Committed Growth	58,800
Staffing	234,300
Savings	(58,900)
Income	(131,900)
Cost Neutral Transfers within HRA	47,400
Changes in Support Service Recharges	(30,200)
IAS19 Adjustments	30,400
LATEST SUPERVISION & MANAGEMENT BUDGET 2013/14	5,168,500
Overall increase in expenditure (within HRA)	149,900

10. CONCLUSION

- 10.1 The proposed 2013/14 Latest Budget allows a contribution of £5.2m into the HRA Capital Investment Reserve, whilst retaining a working balance of £1.3m on the HRA.
- 10.2 The proposed 2014/15 Base Budget allows a contribution of £7.0m into the HRA Capital Investment Reserve, whilst retaining a working balance of £1.3m on the HRA.
- 10.3 The budgeted costs and income are within the parameters agreed in the 'HRA Business Plan 2013-2062' report, also being considered by the Executive in December 2013 as a separate agenda item.
- 10.4 Housing Rents for 2014/15 will be decided by Council in February 2014.