

 Executive 13 January 2016		Agenda Item No. 4
Title	Housing Revenue Account (HRA) budgets latest 2015/16 and base 2016/17	
For further information about this report please contact	Mike Snow Tel: 01926 456800 Marcus Miskinis Tel: 01926 456804	
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	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 11 December 2013 – ‘The new HRA Business Plan 2013–2062’ Executive 29 July 2015 – Budget Review to 30 June 2015; Executive 30 September 2015 – Fees and Charges 2016/17; Executive 4 November 2015 – Budget Monitoring to 30 September 2015	

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 700
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	04/01/2016	Bill Hunt
Head of Service	23/12/2015	Mike Snow
CMT	04/01/2016	
Section 151 Officer	23/12/2015	Mike Snow
Monitoring Officer		
Finance	n/a	Finance Report
Portfolio Holder(s)	04/01/2016	Councillor Phillips
Consultation Undertaken		
None		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. Summary

- This report presents the Housing Revenue Account (HRA) 2015/16 latest and 2016/17 base budgets. The figures assume a 1% rent reduction in 2016/17. It does not commit to any rent change; a rent setting report will be presented to the Executive in February 2016 who will then recommend 2016/17 Housing Rents to Council.
- Appendix 'A' summarises the adjustments from 2015/16 base budgets to the 2015/16 latest budgets and 2016/17 base budgets.
- Appendix 'B' provides additional details of the budget changes for Supervision and Management, which form a major item included in Appendix 'A'.
- Appendix 'C' presents the detailed HRA revenue budgets and key budget changes.

2. Recommendations

2.1 To recommend to Council:

- (a) the base revenue budget for Housing Revenue Account Services in respect of 2016/17 as outlined in Appendix 'C';
- (b) the latest revenue budget for Housing Revenue Account Services in respect of 2015/16 as outlined in Appendix 'C';

3. Reasons for the Recommendations

- 3.1 This report recommends the base budget requirements that will be used in the setting of Council Housing Rents for 2016/17 in February of next year. 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 2015/16 Budget.
- 3.2 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 2016/17 Budget and Council Housing Rents for the year.
- 3.1 In agreeing the latest 2015/16 budgetary position, Managers have considered the outcome of their monthly budget reviews. Many changes have already been reported to Members as part of the Quarterly Budget Review Reports in July and November of this year. Further amendments have also been identified during the rigorous review to determine next year's base position.

4. Policy Framework

4.1 Framework

The Housing Revenue Account (HRA) latest budget 2015/16 and base budget

2016/17 report forms part of the Budgetary Framework 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 30th September 2015' report in November 2015.

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, £136.2m, but should have 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, maintain the housing stock and provide new homes. The base budget for 2016/17 is calculated from the projections contained in the latest HRA Business Plan. The Business Plan and base budget will however need to be reviewed as more details of the Housing and Planning Bill become known. The Bill contains a number of policy changes that will impact on the capacity of the HRA to support and develop the Council's landlord service.

4.4 Rent Policy

The 'base' housing rents for 2016/17 are based upon the revised Government rent policy that was introduced for 2015/16 onwards as later amended in July 2015. Increases in rent will only apply to void properties. For existing tenants rents will reduce in 2016/17.

The changes introduced for 2015/16 increased social rent each year for ten years by the September CPI + 1%. However, in July 2015 the Government announced that with effect from April 2016, the rents charged by local authorities should instead be reduced by 1% per year, for four years.

For void properties, the Council is able to set the base rent at the Target Social Rent (also known as Formula Rent), which represents an increase over the social rent charged by the Council to tenanted properties. However, this rent, to comply with the latest Government policy, must then be reduced by 1% when the property is re-let.

Reducing rents is therefore an expectation of the Government with which the Council is expected to comply.

Details for 2016/17 Council Housing Rents, including rents for the Council's shared ownership homes, garages and for services charges for tenants and leaseholders will be set out in the February report to Executive and Council. At this point no decisions have been made. This Base Budget report merely presents a base rent budget in line with the current Business Plan expectation of following Government rent guidance.

5 Budgetary Framework

- 5.1 Members are reminded that the 2016/17 Council Housing Rents will be set in February after budgets are finalised.
- 5.2 For the setting of base 2016/17 revenue budgets, no inflation has been added other than where contracted or unavoidable. This is consistent with the approach for General Fund Services.
- 5.3 The HRA balance is maintained at a working balance of £1.4m, increased by inflation each year to preserve the real value. Any additional resources generated in year are transferred to the HRA Capital Investment Reserve, to allow future investment in the service, including the provision of new homes.

6 Risks

- 6.1 The Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the funding available.
- 6.2 The main sources of income which may be subject to reductions include:
 - Rental income, including bad debts and void rent loss
 - Supporting People Grant
 - Fees and charges
 - Investment interest
- 6.3 Increased expenditure in service provision may be due to:
 - Inflation and price increases for supplies and services;
 - Increased demand for services increasing costs;
 - Changes to taxation regime;
 - Unplanned expenditure;
 - Assumed savings in budgets not materialising;
 - Changes in Government legislation.
- 6.4 Triggers for increased costs or reduced income include:
 - Economic cycle – impacting upon inflation, interest rates, unemployment, demand for services, Government funding available;
 - Unplanned expenditure, e.g. costs from uninsured events, costs of planning appeals or other legal process;
 - Project costs – whereby there are unforeseen costs, or the project is not properly costed, or the risks related to them are not properly managed.
 - Changes to assumptions underpinning the Housing Business Plan – these assumptions are closely monitored;
 - Levies, charges and reductions in housing stock that may result from compliance with the Housing and Planning Bill.
- 6.5 Many controls and mitigations are in place to help manage these risks. These include:
 - The comprehensive Budget Review process. This entails all budget managers reviewing their budgets on at least a monthly basis, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process,

Budget Review reports are issued to the Executive and Senior Management Team.

- Financial Planning with the Housing Business Plan, bringing together all known/projected issues that will impact on HRA finances in the medium and long term.
- Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
- Project Management and associated controls.
- Trained staff and access to appropriate professional advice (e.g. WCC Legal, Local Government Futures for advice on local government funding and developments in housing).
- Scrutiny by Members of the Council's finances, including Budget Reports and the financial implications of all proposals brought to them for consideration.
- The HRA Capital Investment Reserve stands at £21.541m and whilst this is intended for capital investment, such as providing new homes, it is available to fund any unexpected HRA costs.
- In addition to Reserves, the HRA Balance stands at £1.4m. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level and replenish any monies that are drawn down.
- The HRA follows the same Risk Management process as all Service Areas across the Council, including the on-going review and maintenance of risk registers.
- The specific causes of reductions to income or increased expenditure should continue to be managed by the Service Area as part of managing risks within the Service Risk Register. The Housing & Property Service Area Risk Registers are brought to Finance and Audit Scrutiny Committee every two years.

7 Alternative Options Considered

- 7.1 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.

8 Background

- 8.1 With effect from April 2002, the Government determined how rents should be set for both housing association and Council properties, by setting out a formula that determines a target rent. Councils and housing associations were expected to amend and alter their rents to move towards this Target Social Rent which was designed to align rents across the two sectors. Municipal rents have traditionally been lower than those charged by associations. This policy, known as Rent Convergence, was recently abandoned by the government

However, the calculation for a Target Social rent, which determines what a council can charge unless it has entered into an agreement with Homes and Communities Agency to levy higher Affordable Rent (80% of full market rent) to fund new development, remains in place.

8.2 Housing and Planning Bill

In October 2015, the Housing and Planning Bill was published. This Bill, which currently scheduled to receive Royal Assent in April 2016, provides for a number of policies that will impact on the financial viability of the HRA BP. In the absence of detailed regulations, it is not possible to accurately predict the impact of these changes. However, it is possible to make some informed estimates about the impacts. The changes and these estimates are detailed below.

8.3 The Right-to-Buy (RtB) is to be extended to tenants of housing associations, with the cost of funding the discounts given to tenants by the associations to be covered by local housing authorities. Local authorities will have a duty to consider but not an obligation to proceed with the sale of 'high value' properties as a way of helping them to find the necessary funds to support this policy.

It is not clear how much each council will have to contribute towards this policy as the Government has yet to set out the formula or criteria that will be used for the calculation or to define what 'high value' will mean. It is likely that the criteria for what will in effect be a 'levy' on the HRA will relate in some form to the open market value of the each council's housing stock and the turnover of its stock. In the absence of detail, it is therefore difficult to predict what the precise impact will be on Warwick District, which is a high-value housing area. However, by taking the predicted cost of extending RtB nationally, estimated at £1.5bn per annum and dividing it by the 1,682,000 council owned homes in England gives a potential 'levy' of £892 per home. When multiplied by the Council's 5,500 homes, the possible levy for Warwick District Council using this simplistic methodology could be £4.9m per year. To meet this for property sales would require the Council to sell at least 35 empty properties each year.

With effect from April 2017, households living in social housing and in which the income of the two highest earning residents exceeds £30,000 will be required to pay a rent at or close to the market rent for a similar property. Housing associations will not have to charge higher rents to their high earning tenants but if they do, they will be able to keep the additional income. Local authorities however will be required to pay all the extra rent collected to the Government. Moreover, the Housing and Planning Bill allows for the Government to establish a process for taking a sum of money from councils based on a national estimate of Pay-to-Stay income that may not reflect local circumstances or the money actually collected by the Council. In effect, this could mean that Pay-to-Stay becomes another 'levy' on the HRA. Again, it is difficult to quantify the possible cost to the HRA Business Plan but an estimate based upon Treasury predictions of the money to be raised by this measure from local authorities suggests an annual cost to this Council of circa £785,000. Some of this may however be recovered from higher earning tenants.

With effect from April 2018 the payment limits that apply to Local Housing Allowance (LHA), which is payable to tenants in the private sector, will apply to all tenants whose social tenancy began after April 2016. The Council's rents are

well below current LHA levels for family sized homes but in the case of those aged below 35 whether working or not, LHA is restricted to the cost of single room in a shared household, currently circa £67 a week. This is less than the cost of one bedroom council flat. The Council will therefore need to consider its approach to this client group, including how it can assess and then manage the financial risks to the HRA Business Plan of this policy.

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

Section 9	2016/17 Base Budgets
Section 10	2015/16 Latest Budgets
Section 11	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

8.5 The proposed 2016/17 Base Budgets and 2015/16 Latest Budgets are shown below. More detail is given in Appendix 'C'.

	Original Budget 2015/16 £	Latest Budget 2015/16 £	Base Budget 2016/17 £
Supervision & Management - General (See C6)	2,453,100	2,819,100	2,698,500
Supervision & Management - Special (See C8 to C11)	2,233,600	2,284,400	2,302,000
Supervision & Management Sub-total	4,686,700	5,103,500	5,000,500
Premises	6,063,400	7,343,800	6,353,600
Supplies and Services	455,900	476,900	455,900
Capital Charges	3,011,100	3,132,200	3,171,500
TOTAL EXPENDITURE	14,217,100	16,056,400	14,981,500
Housing Rents	(25,725,000)	(25,725,000)	(25,468,000)
Other Income	(1,733,900)	(1,733,900)	(1,424,800)
TOTAL INCOME	(27,458,900)	(27,458,900)	(26,892,800)
NET INCOME FROM SERVICES	(13,241,800)	(11,402,500)	(11,911,300)
Other Operational Expenditure / Income	4,493,100	4,473,900	4,412,300
NET OPERATIONAL INCOME	(8,748,700)	(6,928,600)	(7,499,000)
Financing and Reserve Funding Adjustments	3,347,700	3,191,600	3,169,100
Contribution to HRA Capital Investment Reserve	5,368,500	3,704,500	4,316,000
Transfer to HRA Balance	(32,500)	(32,500)	(13,900)

8.6 Section 9 of this report considers in more detail the 2016/17 Base Budgets, Section 10 covers the 2015/16 Latest Budgets.

8.7 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.

- 8.8 Current Base Budgets for this account show a surplus of £13,900 for 2016/17. 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 £4.3m is transferred to the HRA Capital Investment Reserve, to fund future capital investment.

- 8.9 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'.
- 8.10 'Supervision and Management' - totalling £5.0m for 2016/17, 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.
- 8.11 'Supervision and Management - General' includes central services applicable to all tenants, such as rent collection, tenancy management and tenant participation.
- 8.12 'Supervision and Management - Special' consists of the provision of services to specific groups of tenants, such as Warwick Response and Housing Support services, together with caretaking and communal lighting in blocks of flats.

9 2016/17 Base Budget

- 9.1 In determining the 2016/17 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 2015/16 Original Budgets.

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

- 9.2 The table below summarises how the 2016/17 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 2015/16	(32,500)
Committed Growth / Income Reductions	1,796,100
Income / Savings	(1,087,600)
Changes in Supervision and Management	313,800
Remove IAS19 Pension adjustment changes within Supervision and Management	(76,900)
Increase in Contribution to Major Repairs Allowance	125,700
Change in Contribution to HRA Capital Investment Reserve	(1,052,500)
BASE NET HRA SURPLUS 2016/17	(13,900)

9.2.1 Inflation

No inflation has been applied to budgets, apart from those where the Council is legally contracted to do so and 1% for an assumed pay award.

9.2.2 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 2016/17 and the Council's rent policy will be decided by Council in February 2016, and budgets will be updated to reflect those decisions.

The base 2016/17 budgets presented here allow for housing rents being reduced by 1% on the rent charged in 2015/16, to comply with the Government's policy on rents for social housing. In the case of void properties, the base rent will be:

- The assumed rent rate which should be what the previous tenant paid if that is already above Target Social Rent (Formula Rent) then reduced by 1% in the first relevant year and again by 1% for each successive year
- or
- The formula rent for 2015/16, minus 1% in 2016/17 rent year and so on for the following four years.

Paragraph 4.4 of this report gives further explanation of rent policy.

Rent budgets include the projected effect of void homes being moved to Target Social Rent (Formula Rent) when re-let, as approved in June 2014.

9.3 Growth / Income Reductions

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

9.3.1 Repairs

There are a number of changes in repair and maintenance budgets, as summarised in Appendix 'C'12.

Painting & Decoration: The 2015/16 Base Budget was increased by £506,500 to £980,000 to enable the cyclical programme to be completed in 2015/16. However, further analysis of the cyclical work requirements show that £450,000 is required for 2016/17. 2017/18 will only require a minimal budget for reactive works before the cycle of works recommences again in 2018/19.

HRA day-to-day and Void Repairs: The Budget Review to 30 September 2015 report to the Executive in November identified a long standing under-budgeting in respect of these responsive repairs and it was agreed to an ongoing increase in these budgets of £820,000 per annum from 2016/17.

9.3.2 Supporting People

As discussed within a separate report on this agenda, the Supporting People Grant from Warwickshire County Council is due to cease from 31 July 2016. This reduction in income of £309,100 has been factored into the Base Budget, with the full year impact of £464,000 being included within the HRA Business Plan.

9.3.3 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. The Base Budget allows for £4.3m contribution to the reserve.

9.3.4 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, and specifically funds items that should not be funded from the Major Repairs Reserve. An updated HIP will be presented in February 2016.

- 9.4 The table below summarises how the 2016/17 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 Net Supervision & Management Budget 2015/16	4,686,700
Inflation (excluding pay)	700
Committed Growth / Income Reductions	173,700
Staffing	261,800
Increased Income / Reduced Expenditure	(42,200)
Changes in Support Services / Recharges	(157,100)
IAS19 Pension Adjustments (reversed within HRA)	76,900
Base Net Supervision & Management Budget 2016/17	5,000,500
Overall increase within HRA	313,800

- 9.5 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'.

10 Latest Budgets 2015/16

10.1 A review of the 2015/16 budget has also been carried out in order to establish the latest budget for the current year. This then informs the base position for 2016/17 as described in Paragraph 9.1 above. Appendix 'A' provides a summary of major changes; Appendix 'C' provides a more detailed analysis of net expenditure for the service.

10.2 The table below summarises how the latest 2015/16 HRA budget has been calculated:

	£
Original Approved Net HRA Surplus 2015/16	(32,500)
Committed Growth / Income Reductions	1,362,800
Changes in Supervision and Management	416,800
Remove IAS19 Pension adjustment changes within Supervision and Management	(74,800)
Change in contribution to / (from) Early Retirement Reserve	(6,100)
Increase in Contribution to Major Repairs Allowance	(34,700)
Change in Contribution to HRA Capital Investment Reserve	(1,664,000)
LATEST NET HRA SURPLUS 2015/16	(32,500)

10.3 The main item of growth in the above table is £1,280,400 which is in respect of revenue repairs. Of this sum £1,060,000 relates to HRA day-to-day and Void repairs, as reported to the Executive in November 2015, plus a further £180,400 in respect of planned repair work that had slipped from 2014/15.

10.4 The table below summarises how the latest 2014/15 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 Net Supervision & Management Budget 2015/16	4,686,700
Committed Growth / Income Reductions	82,400
Staffing	125,000
Increased Income / Reduced Expenditure	(22,900)
Changes in Support Services / Recharges	157,500
IAS19 Pension Adjustments (reversed within HRA)	74,800
Latest Net Supervision & Management Budget 2015/16	5,103,500
Overall increase within HRA	416,800

10.5 Taking into account all the changes to the 2015/16 HRA budgets, the estimated contribution to the HRA Capital Investment Reserve for the year will be £3.7m, a reduction of £1.7m from the Budget agreed in February 2015.

- 10.6 At this moment in time there are no changes to the HRA element of the Housing Investment Programme that have not already been reported to and approved by the Executive. A full revision of the Housing Investment programme will be presented to Council in February 2016.

11 Conclusion

- 11.1 The proposed 2015/16 Latest Budget allows a contribution of £3.7m into the HRA Capital Investment Reserve, whilst retaining a working balance of £1.4m on the HRA.
- 11.2 The proposed 2016/17 Base Budget allows a contribution of £4.3m into the HRA Capital Investment Reserve, whilst retaining a working balance of £1.4m on the HRA.
- 11.3 Housing Rents for 2016/17 will be decided by Council in February 2016, taking into account the requirements laid down by the Government.