

 Executive 3 December 2014		Agenda Item No. 4
Title	Housing Revenue Account (HRA) budgets latest 2014/15 and base 2015/16	
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	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 11 December 2013 – ‘The new HRA Business Plan 2013–2062’ Executive 30 July 2014 – Budget Review to 30 June 2014; Executive 1 October 2014 – Fees and Charges 2015/16; Executive 5 November 2014 – Budget Monitoring to 30 September 2014	

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 590
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	17-Nov-2014	
Head of Service	17-Nov-2014	Mike Snow
CMT	17-Nov-2014	
Section 151 Officer	17-Nov-2014	
Monitoring Officer	17-Nov-2014	
Finance	n/a	Finance Report
Portfolio Holder(s)	13-Nov-2014	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 Housing Revenue Account (HRA) 2014/15 latest and 2015/16 base budgets.
It does not commit to any rent increase; a rent setting report will be presented to the Executive in February 2015 who will then recommend 2015/16 Housing Rents to Council.
- 1.2 Appendix A summarises the adjustments from 2014/15 base budgets to the 2014/15 latest budgets and 2015/16 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 presents the detailed HRA revenue budgets and key budget changes.

2. Recommendations

- 2.1 To recommend to Council:
 - (a) the latest revenue budget for Housing Revenue Account Services in respect of 2014/15 as outlined in Appendix C;
 - (b) the base revenue budget for Housing Revenue Account Services in respect of 2015/16 as outlined in Appendix C.
 - (c) the changes in the Housing Revenue Account related Housing Investment Programme Capital budgets as outlined in Section 11.

3. Reasons for the Recommendations

- 3.1 To determine the base budget requirements that will be used in the setting of Council Housing Rents for 2015/16 in February of next year. This report presents the proposed Base Budget for 2015/16. 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 2014/15 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 so 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 2015/16 Budget and Council Housing Rents for the year.
- 3.4 To agree the latest 2014/15 budgetary position. Many changes have been identified since the original Budgets were set 12 months ago, including the Service Redesign of the Sustaining Tenancies and Housing Strategy & Development teams. Managers consider their budgets monthly and 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.

- 3.5 To update the Capital Housing Investment Programme (HIP) to fund items that cannot be accommodated within current budgets. A full 5 year HIP programme will be presented in February 2015.

4. Policy Framework

4.1 Policy Framework

The Housing Revenue Account (HRA) latest budget 2014/15 and base budget 2015/16 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 30th September 2014' report in November 2014.

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 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 2015/16 is calculated from the projections contained in the latest HRA Business Plan.

4.4 Rent Policy

The 'base' housing rent increase for 2015/16 is based upon the revised Central Government rent policy that was introduced for 2015/16 onwards.

This increases social rent by September CPI + 1%; 2.2% for 2015/16.

When this new rent policy was proposed last year Central Government effectively ended their support for 'Rent Restructuring' a year before rents were due to converge with Target Social Rent (barring delays due to caps, limits and councils voluntarily not implementing the full expected rent increase each year).

Following government rent policy is not compulsory; however the initial proposal stressed that Government expect Councils to follow their guidance and they retained control of the benefit limit rent above which a Council would have to fund part of Housing Benefit; therefore it was implied that this could be

used to make it difficult to continue to apply rent restructuring or otherwise move current tenants towards Target Social Rent.

However the 2014/15 limit rent was effectively set at Target Social Rent; this therefore allows councils to continue to move current tenants towards Target Social Rent without a financial penalty unless Government changes the way they set the limit rent in future.

Options for 2015/16 Council Housing Rents 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.

As recommended in the latest government rent guidance, and approved by Council in June 2014, void homes are moved to Target Social Rent when re-let.

5. Budgetary Framework

- 5.1 Members are reminded that the 2015/16 Council Housing Rents will be set in February after budgets are finalised.
- 5.2 For the setting of base 2015/16 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 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, pending Warwickshire County Council Review
 - 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.

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 approximately £20m, 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 The report is broken down into the following sections and appendices:

Section 9 2015/16 Base Budgets

Section 10	2014/15 Latest Budgets
Section 11	Capital
Section 12	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

8.2 The proposed 2015/16 Base Budgets and 2014/15 Latest Budgets are shown below. More detail is given in Appendix C.

	Original Budget 2014/15 £	Latest Budget 2014/15 £	Base Budget 2015/16 £
Supervision & Mgt: General (App'x C6)	2,522,700	2,578,500	2,453,100
Supervision & Mgt: Special (App'x C8-C11)	2,256,900	2,252,200	2,232,600
Supervision & Management subtotal	4,779,600	4,830,700	4,685,700
Premises	5,224,100	5,563,800	6,063,400
Supplies and Services	350,300	435,500	455,900
Capital Charges	2,837,900	2,964,700	3,011,100
Total Expenditure	13,191,900	13,794,700	14,216,100
Housing Rents	(25,162,100)	(25,200,900)	(25,725,000)
Other Income	(1,708,300)	(1,711,200)	(1,711,200)
Total Income	(26,870,400)	(26,912,100)	(27,436,200)
Net Income From Services	(13,678,500)	(13,117,400)	(13,220,100)
Other Operational Expenditure/Income	4,116,000	4,498,600	4,493,100
Net Operational Income	(9,562,500)	(8,618,800)	(8,727,000)
Below the Line adjustments	3,048,400	3,343,400	3,336,400
Contribution to HRA Capital Investment Reserve	6,474,600	5,245,500	5,345,900
Taken To HRA Balances	(39,500)	(29,900)	(44,700)

8.3 Section 9 of this report considers in more detail the 2015/16 Base Budgets, Section 10 covers the 2014/15 Latest Budgets.

8.4 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.

8.5 Current Base Budgets for this account show a surplus of £44,700 for 2015/16. 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 £5.3m is transferred to the HRA Capital Investment Reserve, to fund future capital investment.

- 8.6 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.
- 8.7 'Supervision and Management' - totalling £4.7m for 2015/16, 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.
- 8.8 'Supervision and Management - General' includes central services applicable to all tenants, such as rent collection, tenancy management and tenant participation.
- 8.9 '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. 2015/16 Base Budget

- 9.1 In determining the 2015/16 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 2014/15 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

- 9.2 The table below summarises how the 2015/16 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 2014/15	(39,500)
Adjustments:	
Inflation	500
Committed Growth	886,300
Increased Income	(620,300)
Cost Neutral Transfers within HRA	242,100
Changes in Supervision & Management (see para 9.3 below)	(93,900)
Remove IAS 19 Adjustments within Supervision & Management	(4,300)
Increase in contribution to Major Repairs Reserve	713,100
Change in contribution to HRA Capital Investment Reserve	(1,128,700)
Base Net HRA Surplus 2015/16	(44,700)

9.2.1 Inflation

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

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 2015/16 and the Council's rent policy will be decided by Council in February 2015, and budgets will be updated to reflect those decisions.

For base 2015/16 budgets, the Estimates presented here allow for housing rents being increased by an average of 2.2% in line with the September CPI inflation figure of 1.2% plus 1%, as per updated Central Government rent guidance. This base approach is in line with the HRA Business Plan.

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 when re-let, as approved in June 2014.

9.2.3 Transfer to Bad Debt Provision

Due to the planned implementation of universal credit and uncertainty surrounding the likely effect, the budgeted Transfer to the Bad Debt Provision has been increased by £105,600 in 2015/16.

9.2.4 Staffing / Fit for the Future

Staffing costs are based upon the latest structure of the service, taking into account all temporary arrangements whilst awaiting the completion of the service redesign. This includes the new structure approved and implemented for the Sustaining Tenancies and Housing Strategy & Development teams (Employment Committee June 2014, Executive September 2014), and the initial projections for the proposed service redesign of the Asset Management Team to be presented to Employment Committee in January 2015.

The changes between the original 2014/15 base budget and the Service Redesign base budget (excluding all temporary posts) are shown below. This apportions the impact between funds based on the latest assessment of workload:

	Prior to Redesign £	Current Projection £	Change £
HRA	2,293,300	2,250,800	-42,500
General Fund	780,600	814,100	+33,500
Other Funding	21,800	65,400	+43,600
Total	3,095,700	3,130,300	+34,600

It should be noted that the increase in General Fund costs is driven by changes to workload, due to the current priority of corporate work such as planned corporate maintenance. In addition this reflects the initial position; as the new structure becomes business as usual it is anticipated that support to the HRA will be strengthened. Therefore there is potential that in the long term the cost to the General Fund will reduce.

However the remaining £38,000 General Fund Fit for the Future savings target is unlikely to be achieved, therefore this target has been removed from 2014/15 and 2015/16 budgets.

9.2.5 Growth / Income Reductions

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

9.2.6 Repairs

There are a number of changes in repair & maintenance budgets, as summarised in Appendix C12.

Painting & Decoration: It is requested that the 2015/16 budget be increased by £506,500 to enable the cyclical programme to be completed in 2015/16. This will allow two years off before the programme recommences, during which only small budgets to allow for reactive work will be required.

Gas/Heating Maintenance & Repair: There is a £37,300 per year saving on revenue repairs, but this is related to the increased Capital cost of replacing boilers covered in paragraph 11.3.

9.2.7 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.

9.2.8 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 2015.

9.3 The table below summarises how the 2015/16 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 2014/15	4,779,600
Adjustments:	
Inflation	6,400
Committed Growth	198,600

Staffing	(91,400)
Savings	(6,000)
Income	28,100
Cost Neutral Transfers within HRA	(242,100)
Changes in Support Service Recharges	8,200
IAS19 Adjustments	4,300

Base Net Supervision & Management Budget 2015/16	4,685,700
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Overall decrease in expenditure (within HRA)	(93,900)
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- 9.4 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'.

10. Latest Budgets 2014/15

- 10.1 A review of the 2014/15 budget has also been carried out in order to establish the latest budget for the current year. This then informs the base position for 2015/16 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 2014/15 HRA budget has been calculated:

	£
Original Approved Net HRA Surplus 2014/15	(39,500)

Adjustments:

Committed Growth	332,800
Increased Income	(90,700)
Cost Neutral Transfers within HRA	202,500
Changes in Supervision & Management (see para 10.3 below)	51,100
Remove IAS 19 Adjustments within Supervision & Management	(4,000)
Increased Contribution to HRA Early Retirement Reserve	309,000
Contribution from HRA Early Retirement Reserve	(252,200)
Increase in contribution to Major Repairs Reserve	690,200
Change in contribution to HRA Capital Investment Reserve	(1,229,100)

Latest Net HRA Surplus 2014/15	(29,900)
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10.3 Early Retirement Reserve

In July 2014 Executive agreed to contribute £200,000 to replenish the HRA Early Retirement Reserve. In September 2014 Executive agreed to contribute an additional £109,000 and approved the use of the HRA Early Retirement Reserve to fund the HRA element of redundancy and early retirement costs due to the Sustaining Tenancies and Strategy & Development elements of the Housing & Property Services Staffing Review. The 2014/15 budget includes the projected cost, £252,000, broadly in line with the figures reported to September 2014 Executive.

- 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 2014/15	4,779,600
Adjustments:	
Committed Growth	159,600
Direct HRA Redundancy Costs	244,700
Other Staffing Changes	(131,500)
Savings	(8,000)
Income	(49,100)
Cost Neutral Transfers within HRA	(202,500)
Indirect HRA Redundancy Costs Recharged to HRA	7,500
Changes in Support Service Recharges	26,400
IAS19 Adjustments	4,000
Latest Net Supervision & Management Budget 2014/15	4,830,700
Overall increase in expenditure (within HRA)	51,100

11. Capital

- 11.1 The following items are budget changes required for HRA related capital programmes within the Housing Investment Programme (HIP). These items are funded from the Major Repairs Reserve, so have no direct impact on the revenue budgets considered elsewhere in this report, other than the transfer of Fire Prevention costs to revenue budgets.
- 11.2 **HRA Aids and Adaptations**
 Increased demand for adaption works from elderly and disabled tenants. Officers forecast that demand will remain the same in 2015/16, but a strategic and policy review will be carried out to manage demand and the qualifying criteria as the impact of new Health Care legislation is introduced from April 2015.
 2014/15: £148,100 increase
 2015/16: £273,600 increase
- 11.3 **Central Heating Replacement**
 Increased costs due to the condition and age of heating systems. As this is a reactive programme, replacing boilers when they are impossible or uneconomical to repair, there is no scope to defer replacements.
 2014/15: £281,400 increase
 2015/16 onwards: £160,000 increase
 There is a small saving on revenue maintenance & repair costs, £37,300 per year, as shown in Appendix C12.
- 11.4 **Fire Prevention Works**
 As reported in the November 2014 Budget Review report, remaining Fire Prevention work is likely to be revenue in nature. The associated 2014/15 Budget changes were approved in the November 2014 Budget Review report.

From 2015/16 this £150,000 budget is to be removed from the HIP and instead added to revenue Cyclical & Major Repairs & Maintenance, as shown in Appendix C12.

12. Conclusion

- 12.1 The proposed 2014/15 Latest Budget allows a contribution of £5.2m into the HRA Capital Investment Reserve, whilst retaining a working balance of £1.4m on the HRA.
- 12.2 The proposed 2015/16 Base Budget allows a contribution of £5.3m into the HRA Capital Investment Reserve, whilst retaining a working balance of £1.4m on the HRA.
- 12.3 Housing Rents for 2015/16 will be decided by Council in February 2015.