

**Draft 2015-16 HRA Budget and 30 Year Business Plan****1. Executive Summary**

- Draft budgets have been prepared for 2015-16. These will be updated and presented to Cabinet at its January meeting.
- Expenditure Budget 2015-16 £17.885m (2014-15 £17.766m) an increase of 0.24%
- Income Budget 2015-16 £17.738m (2013-14 £16.936m) an increase of 1.09%.
- Stock numbers as at 1 April 2014 (excluding shared ownership properties) were 3,864. Stock numbers expected to be 3,861 at 1 April 2015 and in addition 17 new builds/ non original stock additions at affordable rent.
- Proposed average weekly dwelling rents in 2015-16 to increase by 2.2% (2014-15 7.06%) line with Government guidelines CPI +1% (2.2%).
- Interest of £2.347m 2015-16 (£2.347m 2014-15) has been included on HRA self-financing debt of £67.456m.
- Revenue financing of the Capital Programme is included at £7.130m.
- The Supported Housing Service new service has been running since April 2014
- Rents will be collected over 52 weeks, not 50 weeks, for 2015-16 onwards. This will result in a lower weekly charge, but there will not be any rent free weeks.
- Average rent proposed for existing dwelling rents £77.95 (52 weeks) compared to actual rent £76.27 (52 weeks). This was approved on a 50 week basis for 14-15, at £79.33 per week.
- Average affordable rent for new builds and newly acquired properties will be £99.44 per week over 52 weeks, compared to actual rent £97.30 over 52 weeks. Affordable rent is estimated at 80% of market rent.

**2. Introduction**

This appendix outlines the 2015-16 budgets for the Housing Revenue Account (HRA) and sets out the proposals for the setting of rent and discretionary fees and charges.

The HRA is a ring-fenced account, which means that it may not be supported by the General Fund and Council Tax or vice-versa. Expenditure and income that may be charged to the account are defined either by statute or regulation. The HRA is not permitted by law to be in deficit. The HRA holds balances at 1 April 2014 of £6.835m with an additional £200k in reserve for insurance.

The HRA set a net expenditure budget for 2015-16 of £0.147m (2014-15 £0.830 m). The latest forecast for 2014-15 is for an in-year surplus of £1.065m, which includes a forecast capital programme slippage of £1.757m giving an estimated balance of £5.847m at 1 April 2015 (as at Quarter two forecast).

<b>Housing Revenue Account Reserves</b>	<b>Unallocated Amount Available £'000 2014-15</b>
Insurance Reserve	200
<b>Sub total</b>	<b>200</b>
Cumulative Working Balance	5,213
<b>Outturn</b>	<b>2,860</b>
Adjustments between accounting basis and funding basis under statute	(1,238)
<b>Balance on the HRA at 31.3.14</b>	<b>6,835</b>
<b>Total HRA unallocated reserves at 31.3.14</b>	<b>7,035</b>
<b>Approved HRA budget 2014-15</b>	<b>(830)</b>
<b>Rollover of capital programme from 2013-14 approved Q1</b>	<b>(2,253)</b>
<b>Forecast Surplus (investment income)</b>	<b>18</b>
<b>Quarter 2 forecast net budget savings</b>	<b>120</b>
<b>Revision to capital programme Q2</b>	<b>1,757</b>
<b>Total HRA unallocated reserves forecast at 31.3.15</b>	<b>5,847</b>

### 3. Integrated Business Planning and Budgeting

As part of the Council's integrated planning and performance framework, the budget and business planning process links to our corporate priorities. The business plans for each service reflect how we will deliver our corporate priorities over the next five years. Heads of Service have prepared their budgets to reflect their plans and strategies and are in accordance with the principles outlined in the Council's Medium Term Financial Plan (MTFP).

In my opinion, as S151 officer, the estimates for 2015-16 are robust and the level of reserves adequate. A sensitivity analysis has been carried out on the key components of the budget.

In addition to adopting the main principles incorporated in the MTFP, budget holders have also followed the principles of the 30 year HRA Business Plan in preparing their estimates. Planned maintenance budgets are in line with expenditure needed to achieve and maintain Decent Homes Plus standard. Rent increases are in line with the Government guidelines.

The estimates have been prepared in accordance with the Housing Strategy, so that resources are directed towards HRA priorities. The Council's key priorities for housing are:

- To provide more high quality affordable housing
- Target capital expenditure on the Council housing stock to continue to achieve the decent homes standard
- Reduce the incidence of homelessness
- Work with others in support of the housing needs of the district.

The 30 year HRA business plan finance model becomes more important as the Council has to rely on its own resources to maintain a positive HRA Reserve given the constraints of the Housing Debt Cap £74.701m .

#### 4. Consultation and Scrutiny

The Council will consult on this draft HRA budget prior to final approval in January 2015. The draft budget and business plan will be reviewed by Governance and Audit Committee.

#### 5. Value for Money

A review will be undertaken of how costs associated with ancillary services are dealt with, to ensure a consistent and equitable approach is applied across the Council's housing stock. Any proposed changes will be within the limits of the rent income formula. As part of this review, it will be important to track and consider the impact on tenants of any changes to housing benefit regulations, specifically on some services potentially no longer being 'eligible' for the purposes of housing benefit.

#### 6. Supported Housing

The contractual arrangements with Lincolnshire County Council for the Supported Housing service ceased from 1 April 2014. SHDC provide the new "intensive landlord" service, funded through service charges and recharges. This service will undergo an annual review after its first year of operation.

#### 7. Draft HRA Estimates for 2015-16

The following table shows the HRA estimates by type of spend presented as required by the Chartered Institute of Public Finance and Accountancy.

Description	2014-15	2015-16	Variance £'000	Variance %	Ref
	Estimate £'000	Estimate £'000			
Employees	2,310	2,450	140	0.06	7.1
Premises	2,362	2,675	313	0.13	7.2
Transport	287	283	(4)	(0.01)	7.3
Supplies & Services	1,994	2,096	102	0.05	7.4
Third Party Payments	600	600	0	0.00	7.5
Support Services	242	253	11	0.00	7.6
Depreciation	1,600	1,596	(4)	0.00	7.7
Direct Revenue Financing	6,001	5,534	(467)	0.00	7.7
Financing	2,370	2,398	28	0.01	7.8
<b>Total Expenditure</b>	<b>17,766</b>	<b>17,885</b>	<b>119</b>	<b>0.24</b>	
Rents	(15,341)	(15,736)	(395)	0.03	7.9
Fees & Charges	(1,212)	(1,210)	2	0.00	7.10
Recharges	(383)	(792)	(409)	1.07	7.11
<b>Total Income</b>	<b>(16,936)</b>	<b>(17,738)</b>	<b>(802)</b>	<b>1.09</b>	
	<b>830</b>	<b>147</b>	<b>(683)</b>	<b>(1)</b>	

### **7.1 Employee Costs**

The estimates are based on the approved establishment as at 1st September 2014. For 2015-16 employees are budgeted at 98% of establishment, to take account of staff turnover ratios. The estimates assume pay award for 2.2% 2015-16 and CSU craft pay award agreed for Craft operatives. The reduction in budget also reflects the change in the Supported Housing Service.

### **7.2 Premises Costs**

The premises budgets include the repair and maintenance costs of the Council's housing stock, both planned and responsive, and are in line with the HRA Business Plan in order to achieve the Decent Homes Plus standard. The increase in budget relates to and additional amount for damp proofing £15k and materials for void repairs (£285k) kitchen and bathroom upgrades, fully rechargeable to the capital programme £400k.

### **7.3 Transport Costs**

Transport costs relate to the mileage costs and lump sums payable to officers as well as vehicle contract payments. Lease arrangements for the CSU vehicles, reflect in the estimates for 2015-16.

### **7.4 Supplies and Services**

The impairment allowance for bad debts has been assumed to increase by £8k in 2015-16 to £393k, as a result of Welfare Reforms. Significant items not included last year are CSU vehicle tracking software licence costs £50k, materials for kitchen and bathroom upgrades in voids £108k (fully rechargeable to the capital programme) and £60k for sheltered housing carpet replacement. Some of this cost is offset by savings in professional fees and miscellaneous expenses £150k.

### **7.5 Third Party Payments**

Third party payments represent payments for the back office services provided by Compass Point Business Services (East Coast) Ltd (CPBS) and legal services provided by Lincolnshire Legal.

### **7.6 Support Services**

Central support service charges are for services provided by the central Council departments, such as communications, risk and performance management.

### **7.7 Capital Charges and Capital Financing (DRF)**

Depreciation is shown as a charge over the useful life of the Council asset. This is a notional charge to the accounts. Direct revenue financing (DRF), is the way that the HRA finances the majority of the Capital programme spend. A provisional contribution of £7.130m has been made from revenue to finance the draft 2014-15 HRA Capital Programme (See Section 9-Capital Programme). This is a reduction of £467k compared to 2014-15.

### **7.8 Financing**

Interest of £2.347m 2015-16 (£2.347m 2014-15) has been included on HRA self-financing debt of £67.456m, the remainder being notional internal borrowing.

### **Income**

The majority of income comes from weekly rents of the housing stock. The estimates take account of the proposed increases in housing rent levels and other rents and charges.

## 7.9 Rent

Rent levels for 2015-16 have been increased in line with Government's guidance. For 2015-16 the draft estimates are increased by 2.2% (CPI+ 1%).

Approved 2014 15 52 weeks Per week £	Proposed 2015 16 52 weeks Per week £	Approved 2014 15 50 Weeks Per week £	Proposed 2015 16 50 Weeks Per week £	Proposed 2015 16 Increase %
76.27	77.95	79.33	81.07	2.20

The proposed average rent for 2015-16 is therefore £77.95 (52 weeks). The current average rent of £79.32 (50 weeks) which is only fractionally above the £79.33 average rent figure reported in January 2014 due to revised rents following relet at formula rent in line with the Council's policy).

During 2014-15 rent was collected with 2 rent free periods. During 2015-16 there will not be any rent free weeks, spreading the cost to tenants, including sheltered housing. Tenants will pay a lower amount throughout the year, as opposed to a higher amount over 50 weeks. This proposal was outlined in the rent setting report approved in January 2014.

## 7.10 Fees and Charges

Charges for sewerage are increased in line with the annual increase applied by Anglian Water. Currently, the HRA funds a shortfall of around £215,000 that being the difference between the expenditure incurred in operating the sewage treatment service, and the income recovered through sewage charges. Further legal work may be undertaken to establish where the Council may increase its charges. Subject to this work being concluded, it is anticipated that charges will be increased to close the gap in the subsidy the HRA provides.

It is proposed to increase some of the fees and charges in 2015-16 for Sheltered Housing in line with rent increases. The service charges for the Community facilities and Intensive Landlord Sheltered Housing service charges detailed in Appendix B, include a 2.2% increase payable over 52 weeks. Alarm monitoring charges will stay the same fee per week, but will be payable over 52 weeks, as opposed to 50 weeks during 2014-15.

## Transitional Relief

The Sheltered Housing budget is a ring-fenced account within the HRA and is expected to cover its costs. The alarm monitoring service draft 2015-16 estimate, is estimated to return a surplus of £42k. Where tenants are not on Housing Benefit, a discretionary transitional relief scheme has been applied over 3 years (2015-16 year 2), so that the Service charge cost is phased in with the full service charge being met by the tenant by year 4. The cost of the Transitional Relief is a cost to the HRA and has been built into the draft estimates 2015-16 and 30 year Business Plan. Transitional Relief costs are estimated at £15.7k year 1, £10.5k year 2 (2015-16), £5.2k year 3.

Service Charges are listed in Appendix B

## 7.11 Recharges

Support service recharges and internal recharges show under this category. The variance between the 2014-15 and 2015-16 recharge budget is due to the kitchen and bathroom recharge of works carried out by the CSU, to the capital programme. The expenditure is shown in supplies and services and premises costs.

## 8. Forward Estimates

The Council has modelled the HRA financial plans over a thirty year period using a business planning tool provided by Sector. This models the estimated expenditure and income associated with the HRA over this period and shows what funds are available to support the asset management strategy. The 2015-16 model indicates that the Council's financial plan is viable, meeting and maintaining identified capital investment in accordance with stock condition survey and maintaining a viable revenue account throughout the life of the business plan, with surpluses accruing.

The 30 Year Operating Account is attached at Appendix C.

## 9. Capital Programme

The Council prepares a rolling five year capital programme, approved annually before the start of the year. The changes to the HRA financing regime potentially provide wide ranging options for the HRA's capital investment programme. As a result a baseline programme has been prepared, which presents an affordable programme of new build, major repairs, disabled adaptations and other capital spend. This is set out in the following table. This is based upon the major repairs programme produced from stock condition information and is in line with current asset management plans.

The Business Plans indicates that surpluses will be available for investment in HRA stock. Members will wish to consider options for further investment arising from the business plan report and these will be included into this baseline programme as they are approved

HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME 2015/16 TO 2019/20						
Scheme Description	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£000	£000	£000	£000	£000	£000
Council House - Central Heating Upgrades *	1,330	1,361	1,392	1,424	1,457	6,963
Council House - Asbestos	473	485	497	509	521	2,486
Council House - Kitchen/Bathroom Replacement *	2,110	2,159	2,208	2,259	2,311	11,047
Council House - Re-roofing *	1,750	1,790	1,831	1,874	1,917	9,162
Council House - Housing Site Enhancements	158	162	166	170	174	830
Disabled Adaptations - Public	395	405	415	425	435	2,076
Sewage Treatment Refurbishment	60	60	60	60	60	300
Council House Building	900	1,100	1,100	1,100	1,100	5,300
ICT (20% charge to HRA):- - ICT Strategy	20	20	20	20	20	100
<b>New Bids - Essential</b>						
Construction of off-street car parking areas on various sheltered housing sites	60	50	50	50		210
<b>Total Capital Programme</b>	<b>7,256</b>	<b>7,591</b>	<b>7,739</b>	<b>7,891</b>	<b>7,995</b>	<b>38,473</b>
<b>FUNDING</b>						
Capital Receipts - HRA	126	129	132			387
Direct Revenue Funding - HRA/Major Repairs Allowance	7,130	7,462	7,607	7,891	7,995	38,086
<b>Total Funding</b>	<b>7,256</b>	<b>7,591</b>	<b>7,739</b>	<b>7,891</b>	<b>7,995</b>	<b>38,473</b>

## **10. Risk/Sensitivity**

The Council must set a budget for the HRA, which is a realistic statement of its estimated income and expenditure for the coming year based upon information currently available. The HRA cannot, by law, be in deficit. As a ring-fenced account the HRA maintains its own reserves. The minimum level of working capital balances is set at £1.5m. In addition, the HRA holds an amount of £200k earmarked for insurance payments.

### **Key risk areas which impact on the HRA are as follows:**

**Financial Management** - As service budgets are reduced it is imperative that sound financial management practices are adopted by budget managers to avoid potential overspends and to identify issues swiftly so that they can be dealt with promptly.

**Housing Policy** - Policy and practice within the HRA will be comprehensively reviewed, in consultation with tenants, in the light of the opportunities in the Localism Act. These will be fully costed and the financial impact on the business plan assessed.

**Welfare Reforms**- Welfare Reforms-The Governments' Welfare Reforms began implementation at the beginning of April 2013. The Under Occupancy Charge and the Benefits Cap came into effect in April 2013. Universal Credit will start to be rolled out in South Lincolnshire from 23rd March 2015. The reduction in Housing Benefit entitlement for those tenants under occupying their homes and the reduction in benefit for tenants affected by the benefits has started to have an impact on rent collected by the Housing Management Team. The level of arrears is being closely monitored and staff training has been organised for January 2015 to further improve arrears management and rent collection. There is uncertainty over the impact the Universal Credit will have. There are likely to be restrictions on the opportunity to arrange direct payments of benefit to the Council. It will be important to closely monitor the payment of rent through the new benefit over the months ahead.

**Future Government Policy** – The HRA 30 year Business Plan is based on current Government policy, which is likely to change over the life of the plan. The plan is reviewed and updated .

**Housing Growth Company**- The Council is currently working on a business plan for a Housing Growth Company. This may potentially impact on the HRA business plan.