

FOR PUBLICATION

HOUSING REVENUE ACCOUNT – BUDGET 2014/15 TO 2019/20 (H000)

MEETING: 1. CABINET
 2. EXECUTIVE MEMBER FOR HOUSING

DATE: 1. 10 FEBRUARY 2015
 2. 30 JANUARY 2015

REPORT BY: HOUSING SERVICE MANAGER – BUSINESS
 PLANNING AND STRATEGY
 CHIEF FINANCE OFFICER

WARD: ALL

COMMUNITY
ASSEMBLIES: ALL

KEY DECISION 468
REFERENCE
(IF APPLICABLE):

FOR PUBLICATION

1.0 **PURPOSE OF REPORT**

- 1.1 To consider the probable outturn for the current financial year.
- 1.2 To consider the draft budget for 2015/16.

2.0 **RECOMMENDATIONS**

- 2.1 That the probable outturn for the current financial year be noted.
- 2.2 That the draft estimates for 2015/16 and future years be approved.
- 2.3 That the “Growth Items” at Annexe 6 of **Appendix A** be approved.

3.0 **BACKGROUND**

- 3.1 The Council is required to keep a separate Account for its activities as a housing landlord. This is called the Housing Revenue Account (HRA). The HRA is closely governed by the Local Government and Housing Act 1989 and by Determinations made under this Act by DCLG.
- 3.2 As a result of the introduction of self financing the Council is required to produce a 30 year HRA Business Plan that is financially viable, that delivers reasonable standards for tenants and maintains at least the minimum Decent Homes Standard.
- 3.3 Self financing has improved the financial position of the HRA. We can determine our own financial future and can also borrow to finance improvements within the constraints imposed by the Government (e.g. the £156 million debt ceiling). In essence all financial risk in respect of the HRA has been transferred to the Council from Central Government.
- 3.4 The financial modelling in the Business Plan clearly shows that the self financing regime will produce additional resources for investment in the housing stock in the longer term. However, various factors including condition of the stock, timing of investment, type and duration of future loans and rental policy will all impact on the shape of the Business Plan.
- 3.5 Future investment in the housing stock is largely funded through rental and service charge income and is therefore directly influenced by decisions on rent levels, use of cash reserves or additional borrowing.
- 3.6 On 27th January 2015, Cabinet considered the rent and service charge levels for 2015/16 and agreed a rent increase of 2.2% (based on the current National Social Rent Policy of CPI plus 1%) and various service charge increases. These increases have been built into the 2015/16 budget forecast.

4.0 **INFORMATION INCLUDED**

- 4.1 The following information is attached:
- Annexe 1 Statutory HRA Operating Account (Summarised)
 - Annexe 2 Detailed estimates for supervision and management and General Fund contributions.
 - Annexe 3 Subjective Analysis.
 - Annexe 4 Variances – This year's original estimate to revised.
 - Annexe 5 Variances – This year's original to next year's original.

4.2 The draft estimates have been prepared on the following assumptions;

- Pay award of 1% for each of the years 2015/16 to 2019/20.
- Provision for inflation on DLO contracts in accordance with the RICS Building Cost Index.
- An 8% increase in Building Cleaning charges has been allowed for in 2015/16, then 1% from 2016/17.
- Gas & Electricity inflation of 7.5%.
- Rates 3% increase each year.
- Retail Price Index 2.5% / Consumer Price Index 2% annually.

5.0 **FINANCIAL POSITION AT YEAR END 2014/15**

5.1 On the basis of existing policy and the assumptions already outlined HRA balances for this year are estimated as follows;

HRA Balances

	Original Estimate	Revised Estimate
	£000	£000
Balance at 1.4.14 - Surplus	(5,114)	(12,495)
Decrease/(Increase) in HRA balance for year	1,278	(3,426)
Estimated Balance 31.3.15	(3,836)	(15,921)

5.2 The probable outturn includes the following approved additions to the 2014/15 estimate.

5.3 **Carry Forward from 2013/14**

	Amount (£)
Information Technology – Balance of Approved Growth	42,740
Careline Consortium – Setting Up Costs	50,000
Disabled Persons Scooter Storage	72,000
Total	164,740

5.4 It should be noted that the forecast share of the DLO/DSO net surplus (£100,000) has been included in the budget. This is lower than in previous years due to a combination of factors including work on the Stonegravels Depot and corporate training.

5.5 All variations are detailed in Annexe 4 of **Appendix A**, which shows an increase in the HRA balance for the year of £4,704,450 from 2014/15 original to 2014/15 revised. The majority of the variation relates to the capital programme, where an underspend has reduced the need for direct revenue funding by £5,206,360. More details of the underspend are contained in the Capital Programme report which is also on this agenda.

6.0 **FINANCIAL STRATEGY 2015/16**

- 6.1 The financial strategy for the HRA is to deliver a balanced and sustainable budget which is self financing in the longer term and which reflects both the requirements of tenants and the strategic vision and priorities of the Council.
- 6.2 It cannot run at an overall deficit and risks will be identified and managed effectively.
- 6.3 Future years' capital programmes rely on substantial direct revenue financing in order to maximise the percentage of Council homes that continue to meet the Decent Homes Standard.
- 6.4 These show that despite the healthy working balances that we have preserved in the early years, they are used to finance the capital programme and our modest new build (33 units) programme in the first 3 years of the plan. Further new provision is built into the Business Plan from year 11 onwards.
- 6.5 From year 3 of the plan (2016/17 onwards) we will need to borrow additional funds to continue to deliver our capital programme and set aside 1.5% of the opening (Housing Capital Financing or Debt) balances (approximately £2 million) each year for the repayment of debt. This money will then sit within the General Fund and the General Fund will assume all responsibility for the payment of debts as and when they become liable for repayment. It will therefore be assumed that by 'setting aside' the HRA has repaid this amount of debt in each year and the Business Plan will see a reducing 'debt' balance year on year.
- 6.6 The Draft Capital Programme for 2015/16/17/18, which is also on this agenda, requires a £10.835 million contribution from rental income in 2015/16 in order to continue to maintain the Decent Homes Standard and deliver further improvements to our non-traditional housing stock and also estate environmental works. If income is reduced during this period the Capital Programme will have to be adjusted accordingly.
- 6.7 The HRA Business Plan for 2015/16 onwards contains our financial strategy in detail. It is proposed that a series of Member Workshops take place in early 2015/16 to share this strategy.

7.0 **INITIAL BUDGET FORECAST 2015/16**

7.1 The table below summarises the financial position for 2015/16.

HRA Balances

	Original Estimate
	£000
Balance at 1.4.15 - Surplus	(15,921)
Decrease/(Increase) in HRA balance for year	4,904
Estimated Balance 31.3.16	(11,017)

7.2 Many factors contribute to the projected decrease in the HRA Balance for the year in 2015/16 of £4,904,440 and these are detailed in Annexe 5 of **Appendix A** (decrease in HRA balance for the year of £3,626,400 from 2014/15 original to 2015/16 original). The majority of the variance relates to an increase in direct revenue funding to finance the capital programme.

8.0 **RISK MANAGEMENT**

8.1 There are a number of significant risks inherent in any budget forecasting exercise and the risk increases as the period covered increases. The key budget risks for the HRA are detailed below:

- The impact of Welfare Reforms/Universal Credit.
- Ability to deliver Capital Programme.
- Maintain a minimum working balance of £3 million.
- Future economic changes (e.g. interest and inflation rates).

9.0 **GROWTH REQUESTS**

9.1 Attached at Annexe 6 is a schedule of priority growth requests, with a total value of £87,100, of which £36,170 are one-offs, £15,930 is recurring annually and £35,000 is recurring every 3 years. There are sufficient revenue resources to finance these growth requests.

10.0 **EQUALITIES IMPACT ASSESSMENT (EIA)**

10.1 The budget process and forecasts produced do not require an EIA but any decisions to vary budgets and service provision may require EIA's specific to those options.

11.0 **RESOURCE IMPLICATIONS**

11.1 In writing this report, the standard corporate issue of revenue financial implications has been considered at Sections 6 to 9 above.

12.0 RECOMMENDATIONS

- 12.1 That the probable outturn for the current financial year be noted.
- 12.2 That the draft estimates for 2015/16 and future years be approved.
- 12.3 That the “Growth Items” at Annexe 6 of **Appendix A** be approved.

13.0 REASONS FOR RECOMMENDATION

- 13.1 To enable the Council to set the HRA budget for 2015/16.
- 13.2 To continue with the financial strategy contained in the Housing Revenue Account Business Plan and self financing debt settlement arrangements.

ALISON CRAIG
HOUSING SERVICE MANAGER – BUSINESS PLANNING AND STRATEGY

BARRY DAWSON
CHIEF FINANCE OFFICER

You can get more information about this report from Steven Spencer on extension 5454.

Officer recommendation supported.



Signed

Executive Member

Date 30.1.2015

Consultee Executive Member/Support Member comments (if applicable)