

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 8 DECEMBER 2015

Title of report	HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSALS FOR 2016/17
Key Decision	a) Financial Yes b) Community Yes
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Purpose of report	To seek approval of the draft 2016/17 Housing Revenue Account (HRA) Budget proposals for consultation.
Reason for Decision	To enable the Council to set a balanced Housing Revenue Account Budget for 2016/17.
Council Priorities	The HRA budget assists the Value for Money priority.
Implications: Financial/Staff Link to relevant CAT	As included in report. Delivering a HRA Budget for 2016/17 will allow the Council to achieve the objectives for the service as set out in the Housing Business Plan and Service Team Business Plans.

Risk Management	The Council sets an HRA budget, which is regularly monitored throughout the year to ensure services are delivered within budget. Risks are managed through the corporate risk management process.
Equalities Impact Screening	None identified.
Human Rights	None identified.
Transformational Government	Not applicable
Comments of Head of Paid Service	Report is satisfactory
Comments of Section 151 Officer	Report is satisfactory
Comments of Monitoring Officer	Report is satisfactory
Consultees	Corporate Leadership Team (CLT)
Background papers	None
Recommendations	<p>A. THAT THE ASSURANCE STATEMENT BY THE S151 OFFICER BE NOTED,</p> <p>B. THAT CABINET APPROVE THE DRAFT HRA BUDGET PROPOSAL AS DETAILED IN THIS REPORT AND ASSOCIATED APPENDICES FOR CONSULTATION</p> <p>C. THAT CABINET APPROVE THE TRANSFER OF HRA BALANCES TO A SAVINGS RESERVE FOR THE PURPOSES OF REPAYMENT OF LOANS</p>

1.0 INTRODUCTION

- 1.1 This report seeks Cabinet approval to consult on the draft HRA budget proposals for 2016/17, with the outcome of this consultation exercise being fed back into the subsequent reports to Cabinet and Council to seek approval for the final budget.
- 1.2 The formal consultation process with customers adheres to the same consultation timetable as the general fund and will commence on 9 December 2015 and end on 15 January 2016 in readiness for Cabinet and Full Council approval of final proposals on 9 and 23 February 2016 respectively.
- 1.3 Draft proposals for consultation have been prepared in the context of a revised approach to annual rent increases following announcements made by the Chancellor of the

Exchequer in his Budget statement in July of this year, regarding the four year rent reduction regime which all social housing landlords must adhere to.

- 1.4 The immediate post budget impact of this revised approach to rents was a reduction in rental income of £7.5m over the first 5 years of the HRA business plan, when compared to assumptions when setting the 2015/16 budget and rent increase. As a result, initial efficiency savings needing to be made were envisaged as follows:
- £6m by 2021/22 (when the first £10m and £3m maturity loans fall due).
 - A further £6.2m of savings will be required between 2022/23 – 2024/25.
 - A further £10m funding shortfall arises between years 27 and 30 (2041/42 and 2044/45), taking the total to £22.2m.

2.0 2015/16 BUDGET POSITION

- 2.1 The budgeted position for 2015/16 was a £183k surplus. The overall forecast at period 7 shows a potential surplus of £2k. This is largely as a result of the reduction in expected rent due to a higher than predicted level of empty properties, the loss in Supporting People grant for older persons services, and additional staffing costs in the Repairs team. We will aim to achieve a balanced budget position by year end (i.e. a zero deficit / surplus).
- 2.2 As a result of this the balance on the Housing Revenue Account at 31 March 2016 is estimated to be £5.2m. This balance significantly exceeds our agreed minimum working balance on the HRA of £1m and has been developed as a provision against the future repayment of debts taken out on a maturity repayment basis, within the HRA Business Plan. The first maturity loans of £10m and £3m fall due for repayment on 28 March 2022. It is proposed that these balances be transferred to a savings reserve for the purposes of repaying these loans commitments.

3.0 2016/17 BUDGET OVERVIEW

- 3.1 Budget proposals are based on prices and levels of charges for Council Housing related services at September 2015 plus known increases, for example contractual obligations.
- 3.2 The process of determining the 2016/17 budget includes the capturing of all of the changes required from one budget year to the next within the HRA in the form of a budget “investment” – a request for more funding or a reduction in income collected, or a budget “saving” – an increase in income or a budget saving via reduced expenditure.
- 3.3 The budget investment and budget saving proposals for the 2016/17 budget are shown within Appendix A.
- 3.4 For 2016/17, the level of revenue contribution to capital outlay (RCCO) is proposed to reduce from £2.6m to nil. This is as a result of the inclusion of new build proposals for the brownfield site (Coalville), Greenacres and Willesley sites (as presented to Cabinet on 10 November 2015) that revise the 2015/16 capital programme to cover the cost of land acquisition in 2015/16, and development expenditure spread between 2016/17 and 2017/18 ahead of properties being delivered by Q3 2017/18.

- 3.5 The budget for 2016/17 is estimated to produce an operating surplus of £2.45m, which will increase the estimated balance on the Housing Revenue Account at 31st March 2017 to £7.7m. It is proposed that these balances be transferred to a savings reserve for the purposes of repaying the £10m and £3m maturity loans which fall due in 2021/22.
- 3.6 Savings of £2.45m will therefore be realised in 2016/17, and future predicted savings that will be made are as follows:
- 2017/18 - £1.7m
 - 2018/19 - £0.0m
 - 2019/20 - £0.0m
 - 2020/21 - £1.6m
 - 2021/22 - £2.7m
- 3.7 Future additional savings will be required to be made to address lower than predicted income due to changing assumptions around future rent inflation (see 4.8).

4.0 2016/17 BUDGET – RENTS

- 4.1 During 2014, the Government announced that from 2015/16 rent guidance required rent increases to be via a formula of September CPI + 1% for the next 10 years.
- 4.2 On the introduction of its new guidance the Government's former rent restructuring policy ceased from 2015/16, with the exception of re-letting properties at the converged rent level ('target rent') on re-let.
- 4.3 Following a review of the number of properties at target rent at that time, Cabinet agreed to adopt an accelerated convergence approach which increased 2014/15 rents following the new guidance of CPI + 1% but also continued to converge rents not already at the target rent at an accelerated rate of up to £4 per week. Cabinet also agreed to the expansion of the approach to letting properties at target rent to include transfers between existing tenants. This approach was approved on the basis of a more equitable outcome with similar rent values being charged for similar properties, and as a result 48% of properties were at target rent at April 2015. In addition, it was proposed that this accelerated convergence be followed for the 2016/17 rent increase which would have seen the number of properties at target rent move to 94% with the remaining 6% by 2019/20.
- 4.4 At October 2015, 51% of properties are currently at target rent.
- 4.5 Government proposals announced in the Summer Budget in respect of the four year rent reduction have confirmed that Local Authorities' must adhere to this regime. As a result, all rents for 2016/17 must be based on the 2015/16 level and reduced by 1%. The ability to converge rents has been removed and properties can only be moved to target rent upon re-let.
- 4.6 The void target included in the budgeted rental income is 1.8%.

- 4.7 As a result of the 1% rent reduction for 2016/17, budgeted rental income is £279k less than budgeted in 2015/16.
- 4.8 Since its inception, the long term HRA business plan has had a core assumption that future rents will increase by 2.5% (notwithstanding the four year 1% rent reductions from 2016) and this was a standard, benchmark assumption across most social housing landlords. In view of government policy and the outlook for inflation, it is now considered prudent to change this assumption to 1.5%. This will have a significant impact on future rental income flows, and additional efficiencies and savings will have to be identified within the Housing Service going forward.
- 4.9 Changing this core assumption will require a fundamental re-modelling of the HRA business plan, and this work is currently underway. It is therefore likely that the final budget proposals will have to change significantly, with a particular focus on identifying areas where expenditure can be reduced (e.g. reductions in the capital programme) or additional income can be generated (e.g. disposals of sites / properties),

5.0 SERVICE CHARGES, FEES AND OTHER CHARGES

- 5.1 Approximately one third of the Council's properties have a service charge, covering a range of items such as communal heating, communal lighting, maintenance of communal areas and the new charge implemented following Cabinet approval in September 2015 in respect of the older persons service. Service charges are covered by Housing Benefit, whilst all other fees and charges are not.
- 5.2 For 2016/17 average weekly service charges are proposed to be increased by 4.92%.
- 5.3 Central heating charges are proposed to be maintained at existing levels, as a result of a forecast freeze on energy prices anticipated for 2016/17.
- 5.4 Garage rent levels are proposed to rise by 0.8% which is in line with the Retail Prices Index (RPI) as at September 2015.
- 5.5 Appleby Magna Caravan Site is a General Fund asset but managed by the Housing Service. Ground rents for the site are proposed to be increased by RPI of 0.8% on the anniversary of each individual rent agreement in 2016/17.
- 5.6 It is proposed that Lifeline Charges are increased by RPI of 0.8% from April 2016.
- 5.7 Shop leases are proposed to rise by 14% as agreed by Cabinet in November 2014.
- 5.8 A table detailing each charge increase can be found in Appendix B.

6.0 HRA BUSINESS PLAN

- 6.1 Significant annual surpluses on the HRA are required in future years in order to meet the loan repayment commitments in the HRA Business Plan. As detailed in 2.3 and 3.6 above, it is proposed that existing balances and future annual surpluses are transferred to a savings reserve for the purposes of repaying these loans. The first maturity loans to fall

due do so in 2021/22 and are for £3m and £10m. Please see Appendix C for a schedule of HRA loans.

6.2 As a result of proposals for 2016/17 and the inclusion of new build proposals which will bring in additional longer term rental income, the overall impact to the HRA Business Plan is to reduce the funding shortfall by £13.4m over the 30 years as follows:

- Savings of £4.4m needed by 2021/22 (when first £10m and £3m maturity loans fall due).
- Further £3.9m of savings will be required between 2022/23 – 2023/24.
- Funding shortfalls in future years to year 30 (2044/45) reduced to nil.
- Cumulative total savings of £8.3m are therefore required up to 2023/24 in addition to the savings already factored in at 3.7 above. However, as per 4.9 above, it is likely that the savings required will increase when the new rent inflation assumption is factored in.

6.3 Revenue contribution to capital outlay is RCCO for 2016/17 is reduced to nil. Future amounts are forecast to be required in order to support new build proposals, as detailed in 3.5 above, as follows:

RCCO

- 2016/17 – nil
- 2017/18 - £434k
- 2018/19 - £2.1m
- 2019/20 - £1.6m

7.0 CONSULTATION PROCESS

7.1 The contents and appendices of this report will be used to consult with Council tenants on the proposals for the 2016/17 Housing Revenue Account budget.

7.2 This will include consulting with tenant members of the Performance and Finance Working Group (the Council's Resident Involvement technical finance working group) and the Tenants and Leaseholders Consultation Forum (the Council's main consultative body of tenants) to review and comment on the proposals.

7.3 In addition, the contents and appendices of this report will be published on the Council's Housing internet page and available in hard copy format upon request.

7.4 A copy of the consultation timetable can be found in Appendix D.

8.0 ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

8.1 The Local Government Act 2003 requires the Council's Chief Financial Officer (Section 151 Officer) to comment on the robustness of the estimates and also on the adequacy of the proposed reserves. Members must have regard to these comments when making a decision on the budget proposals for the forthcoming year.

- 8.2 Taking into account identified risks, the Section 151 Officer considers that the estimates which form the Housing Revenue Account Budget for 2016/17 are robust and prudent, and the proposals are deliverable.
- 8.3 The Section 151 Officer also considers that the overall level of Housing Revenue Account reserves is adequate.

APPENDIX A

Saving / Increase in Income

Ref	Team	Savings Bid Title	Value
SAV4	Repairs	Reduction in recurring budget provision associated with the Green & Decent pilot project which will cease April 2016	£21,000
SAV14	HRA Business Support	Increase in service charge income, including full year budget provision for new element of charge in relation to the control centre	£153,776
SAV15	HRA Business Support	Revenue Contribution to Capital Outlay (RCCO) Reduction in the estimated RCCO required to meet capital expenditure for 2016/17	£2,610,160
SAV19	Housing Management	Increase in lifeline income based on RPI increase for existing tenants & additional income generated via new business	£21,119
SAV25	Housing Management	Reduction in one off funding for the redesign of the Support Service, net of £10k provision for increased social activities for vulnerable tenants	£10,000
SAV28	HRA Business Support	Removal of one off expenditure items included in the 2015/16 budget	
De-min SAV	De-minimus (below £5k)	£4,000 Reduction in one off expenditure for Resident Involvement IT requirements (SAV1) ; £5,000 Reduction in budget provision for external communications (SAV3); £5,000 Reduction in water hygiene costs (SAV10); £1,311 Increase in garage rent based on RPI increase (SAV18); £2,837 Reduction in software reporting licence costs (SAV20); £648 Reduction in servicing costs of door entry systems (SAV22); £2,648 Reduction in servicing costs of communal refuse systems (SAV23); £4,647 Savings as a result of control centre maintenance contract (SAV24); £704 Increase in insurance premium collection (SAV26)	£26,795
Total			£3,052,850

Investment / Reduction in Income

Ref	Team	Investments Bid Title	Value
BI12	HRA Business Support	Reduction in rental income for 2016/17 compared to 2015/16 as a result of 1% rent reduction. Includes voids target of 1.8%	£278,700
BI14	HRA Business Support	Increase in HRA salary provision based on incremental increases, pension costs and 1% pay of existing posts. Provision is net of changes to the existing structure, which include provision for Planned Investment Team	£85,900
BI20	Housing Management	Reduction in income as a result of withdrawal of Leicestershire County Council Supporting People Grant	£328,100
BI25	Planned Investment	Reduction in the value of salary costs charged to the Capital Programme as a result of revised structure	£86,100
De-min BI	De-minimus (below £5k)	£1,100 Increase in annual ICT licence costs (BI15); £2,317 Annual increase in expenditure on cleaning contract (BI16); £2,003 Increase in the cost of grounds maintenance of shared and common parts (BI22); £164 Increase in costs of servicing fire extinguishers (BI24)	£5,584
Total			£784,384

Net Savings for 2016/17 = £2,268,466

APPENDIX B

DRAFT COMPARISON OF 2015/16 AND 2016/17 HOUSING CHARGES							
	2015/16		2016/17				
Chargeable Service	Actual 2015/16	Charge	Estimates 2016/17	Increase/ (Decrease)	Percentage Change	Charge	Basis of Increase (Please see draft report for full details)
Service Charges (before adjustments to income for void loss)	£482,432	Varies per property	£506,190	£23,758	4.92%	Largest increase value: £2.88 pw or 84%; Largest decrease value: £1.36pw or - 98%	Based on assessment of all chargeable services.
Central Heating (before adjustments to income for void loss)	£115,223	0 Bed: £7.75pw 1 Bed: £9.34pw 2 Bed: £10.72pw 3 Bed: £12.32pw	£115,223	£0	0.00%	0 Bed: £7.75pw 1 Bed: £9.34pw 2 Bed: £10.72pw 3 Bed: £12.32pw	Based on market assessment of predicted increase in utility costs during 2015/16 and forecast energy prices for 2016/17.
Garage & Garage Site Rent (before adjustments to income for void loss)	£163,905	Garage: £6.25pw Site: £4.01pw	£165,216	£1,311	0.80%	Garage: £6.38pw Site: £4.09pw	RPI based increase in line with previous years.
Appleby Magna Caravan Site Rent (before adjustments to income for void loss)	£23,213	Site: £30.95pw	£23,399	£186	0.80%	Site: £31.19pw	RPI based increase at anniversary date of each licence in line with previous years.
Shop Leases	£14,300	n/a	£16,302	£2,002	14.00%	n/a	14% increase based on Nov 14 Cabinet Report
Tenants Contents Insurance	£45,883	Premiums from £0.43 to £6.18pw	£51,299	£5,416	11.80%	Premiums from £0.43 to £6.78pw	Minimum increase of 3.5% in IPT, increase in actual premiums unknown still, subject to review on claims made. Also includes 2nd part of stepped increase for policyholders who had accidental damage before April 2015
Lifelines for private customers	£100,726	£43.66 per quarter	£101,532	£806	0.80%	£44.00 per quarter	RPI based increase in line with previous years.

Lifelines (East Midlands Housing Association)	£38,209	Various depending on scheme	£38,515	£306	0.80%	Various depending on scheme	RPI based increase in line with previous years.
Choice Based Lettings Advertising Costs	£28,000	n/a	£28,000	-	0.00%	n/a	No increase proposed.
Total Services	£1,011,890		£1,045,675	£33,785			

NWLDC Housing Revenue Account Loan Schedule

NWLDC - HRA Self Financing loans taken up 26/03/12

PAYMENT PROFILE - PRINCIPAL AND INTEREST

Loan Type	Principal	Loan Period (Years)	Interest Rate
Maturity	10,000,000	30	3.5
Annuity	10,000,000	20	2.57
Maturity	10,000,000	10	2.4
Maturity	3,000,000	10	2.4
Annuity	10,000,000	15	2.02
Maturity	10,000,000	25	3.44
Maturity	13,785,000	30	3.5
Maturity	10,000,000	30	3.5
	76,785,000		

Note – The above schedule does not reflect the HRA share of existing general fund loans for which the HRA bears an annual charge.

Consultation and approval of HRA 2016/17 Budget Timetable

Date	Item	Information
9 December 2015 to 15 January 2016	Consultation with customers	Consultation with: <ul style="list-style-type: none">• All customers via NWLDC website• Tenant members of the Performance and Finance Working Group (17 December 2015)• Members of Tenants and Leaseholder Consultation Forum (via letter)
6 January 2016	Policy Development Group	Opportunity for members to consider proposals prior to agreement of final budget by Cabinet & Council
9 February 2016	Cabinet Meeting	Recommendations to Council
23 February 2016	Council	Approval of Budget