

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 9 FEBRUARY 2016

Title of report	HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSALS FOR 2016/17
Key Decision	a) Financial Yes b) Community Yes
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Councillor Roger Bayliss 01530 411055 roger.bayliss@nwleicestershire.gov.uk</p> <p>Chief Executive 01530 454500 christine.fisher@nwleicestershire.gov.uk</p> <p>Director of Housing 01530 4545819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance 01530 454520 ray.bowmer@nwleicestershire.gov.uk</p> <p>Financial Planning Manager 01530 454707 pritesh.padaniya@nwleicestershire.gov.uk</p>
Purpose of report	To seek approval of the 2016/17 Housing Revenue Account (HRA) Budget and Rent and Service Charge increases.
Reason for Decision	To enable the Council to set the 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	The report is satisfactory
Comments of Deputy Section 151 Officer	The report is satisfactory
Comments of Monitoring Officer	The report is satisfactory
Consultees	Corporate Leadership Team (CLT), Cabinet (8 December 2015, Tenants Performance and Finance Working Group, Tenants and Leaseholders Consultation Forum, Public/Tenant consultation exercise undertaken via website, Policy Development Group (6 January 2016).
Background papers	HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSALS FOR 2016/17 (CABINET – 8 DECEMBER 2015) HOUSING REVENUE ACCOUNT (HRA) BUDGET PROPOSALS FOR 2016/17, WITH UPDATE(POLICY DEVELOPMENT GROUP – 6 JANUARY 2016)
Recommendations	<p>A. THAT THE ASSURANCE STATEMENT BY THE S151 OFFICER BE NOTED,</p> <p>B. THAT THE COUNCIL BE RECOMMENDED TO:</p> <p>1. APPROVE THAT COUNCIL HOUSE RENTS IN 2016/17 BE DECREASED BY 1% (AVERAGE DECREASE £0.83 PER WEEK).</p> <p>2. APPROVE THE INCREASE OF 0.8% (AVERAGE INCREASE 5 PENCE PER WEEK) IN GARAGE RENTS FOR 2016/17.</p> <p>3. APPROVE CENTRAL HEATING CHARGES FOR 2016/17 REMAINING AT THE SAME LEVEL AS FOR 2015/16</p> <p>4. APPROVE THE AVERAGE INCREASE OF 4.92% (16 PENCE PER WEEK) IN THE WEEKLY SERVICE CHARGE FOR 2016/17.</p> <p>6. APPROVE THE GROUND RENT INCREASE AT APPLEBY MAGNA CARAVAN SITE OF 0.8% (24 PENCE PER WEEK) ON THE ANNIVERSARY OF EACH INDIVIDUAL RENT AGREEMENT IN 2016/17.</p>

	<p>7. APPROVE THE LIFELINE CHARGES INCREASE OF 0.8% (34 PENCE PER QUARTER) FROM APRIL 2016.</p> <p>8. APPROVE THE HOUSING REVENUE ACCOUNT BUDGET FOR 2016/17 ATTACHED AS APPENDIX A</p>
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1.0 INTRODUCTION

- 1.1 The Housing Revenue Account budget for 2016/17 is set out at Appendix A. The original 2015/16 budget and the revised budget are included in Appendix A for information.
- 1.2 Cabinet considered a draft HRA budget report on 8 December 2015 and this was followed by a report to the Policy Development Group on 6 January 2016. The January report included an addendum dealing with a change to the underlying assumptions for rent increases from April 2020 after the four years of 1% rent reductions, and the proposals for dealing with the projected future income shortfalls.
- 1.3 The 2016/17 budget, the proposed HRA capital programme and the 30 year business plan referred to in this report include the impact of the proposals contained within the addendum which was considered at Policy Development Group on 6 January 2016.

2.0 REVISED BUDGET 2015/16

- 2.1 The budgeted outturn position for 2015/16 was a £183k surplus. The overall forecast for the current year at period 9 shows £2k surplus. 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 Responsive Repairs team.
- 2.2 The balance on the Housing Revenue Account at 31 March 2016 is estimated to be £5.3m. This balance significantly exceeds our agreed minimum working balance on the HRA of £1m and this has been developed to provide a loan repayment reserve provision for 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 the balances over the £1m minimum working balance on the HRA be transferred to a savings reserve for the purposes of repaying these loan commitments, and the ensuing interest would also be used for the same purpose.

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 Repairs and maintenance of dwellings expenditure (Appendix A – line 1) in 2016/17 is anticipated to total £5.3m.
- 3.3 Supervision and management expenditure (Appendix A – line 4) in 2016/17 is expected to be £2.8m.
- 3.4 For 2016/17, the level of revenue contribution to capital outlay (RCCO) is proposed to reduce from £2.6m in 2015/16 to nil. This is as a result of the inclusion of new build

proposals for the brownfield site (Coalville), Greenacres and Willesley sites (as approved by Cabinet on 10 November 2015). This revises the 2015/16 capital programme to cover the cost of land acquisition in 2015/16 and the spreading of development expenditure over 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 £2.40m, which will increase the estimated balance on the Housing Revenue Account at 31st March 2017 to £7.69m. It is proposed that these balances (less the £1m minimum operating balance on the account) be transferred to a loan repayment reserve for the purposes of repaying the £10m and £3m maturity loans which fall due in 2021/22. This is a revised position when compared to the draft budgeted operating surplus presented to Cabinet on 8 December 2015 which was £2.45m, due to a number of budget changes since this date (see Appendix B)
- 3.6 Savings of £2.40m will therefore be realised in 2016/17, and future predicted savings that will be made are as follows:
- 2017/18 - £1.6m
 - 2018/19 - £0.0m
 - 2019/20 - £0.3m
 - 2020/21 - £1.1m
 - 2021/22 - £0.0m

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 that 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% and 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 for existing tenants. This approach was approved on the basis of achieving 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 previously 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 January 2016, 53% 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 a projected loss of income of 1.8%.
- 4.7 As a result of the 1% rent reduction for 2016/17, budgeted rental income is £254k less than the budgeted figure 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% per annum (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 an annual 1.5% increase. This was addressed in the report to Policy Development Group in January.
- 4.9 Changing the core assumption for rents has led to significant re-modelling of the HRA business plan. The final budget proposals in this report have therefore changed from those upon which the December Cabinet report was based. There has been a particular focus on identifying areas where expenditure can be reduced (e.g. re-profiling or reducing the capital programme) or additional income can be generated (e.g. disposals of sites / properties).
- 4.10 Proposed savings, and a number of accounting and budget estimate amendments, have been made from 2015/16, which are set out in Appendix B. The largest of the savings or income increases is a reduction in RCCO, for which more detail is provided in 6.3 below. The introduction of a new service charge is expected to yield income of £153k and the reduction in the bad debt provision will save £46k. Removing one-off items from 2015, together with some smaller reductions in net expenditure bring the total savings to £3.1m.
- 4.11 The most significant adverse movements are the removal of Supporting People funding from Leicestershire County Council, amounting to £328k and the reduction in rent income, due to the 1% rent reduction and falling property numbers, totalling £254k. Other adverse movements come to £137k, making a total adverse movement of £719k.

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 an average of 14% as agreed by Cabinet in November 2014.
- 5.8 A table detailing each charge increase can be found in Appendix C.

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 2.2 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 D for a schedule of HRA loans.
- 6.2 As a result of the proposals for 2016/17 and the inclusion of new build proposals which will bring in additional longer term rental income, the overall impact on the HRA Business Plan is as follows:
- Savings of £0.2m will be needed by 2024/25.
 - Further savings of £1.4m will be required in 2035/36.
 - The next funding shortfalls occur in year 26 (2041/42) and continue to the end of the business plan period in 2045/46, totalling £17.9m. This arises as a result of maturity loans of £33.8m coming up for repayment in 2041/42, and the council's treasury management strategy during this era will guide the council's response.
- 6.3 Revenue contribution to capital outlay (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 3.4 above, as follows:

RCCO

- 2016/17 – nil
 - 2017/18 - £0.43m
 - 2018/19 - £2.27m
 - 2019/20 - £0.8m
- 6.4 At one development site, following consultation with the developer, the Council has been able to negotiate the delivery of a number of gifted units as part of the section 106 planning agreement. Please see Cabinet report of 22 September 2015 on Emerging Issues Affecting Affordable Housing Delivery. This will allow the Council to assume ownership of a reduced number of units at a peppercorn value to be managed as rented accommodation within the HRA. This provides a significant financial advantage to the HRA business plan as a long term rental income stream is obtained for nil cost. In order to further boost the HRA balance sheet going forward, it is proposed that the Council investigates negotiating similar arrangements with developers on other sites.

7.0 CONSULTATION PROCESS

- 7.1 Consultation on the Housing Revenue Account 2016/17 draft budget proposals (as approved by Cabinet on 8 December 2015) has been completed via the Council's website and via hard copy upon request. The formal consultation closed on 16 January 2016 and no comments were received.

- 7.2 Members of the Performance and Finance Working Group (The Council's Resident Involvement technical finance working group who were consulted on 17 December 2015) were supportive of the recommended proposals.
- 7.3 The Tenants and Leaseholders Consultation Forum were consulted on the budget proposals at their meeting of 25 January 2016. They were interested in the type of properties that might be sold in future, and wished assurance that proceeds from property sales would be re-invested to support future improvements to the existing stock, but were supportive of the proposals.

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

LINE NO.	DETAIL	2015/2016		2016/2017
		Budget £	Forecast (p9) £	Estimate £
	HOUSING REVENUE ACCOUNT			
1.	TOTAL REPAIRS & MAINTENANCE	5,097,110	5,018,640	5,258,450
	SUPERVISION & MANAGEMENT			
2.	General	2,234,580	2,341,760	2,163,710
3.	Special / Supporting People	341,230	509,330	608,230
4.		2,575,810	2,851,090	2,771,940
5.	PROVISION -DOUBTFUL DEBTS	170,790	170,790	125,000
6.	CAPITAL FINANCING:-			
7.	Depreciation - MRA & other	3,995,170	3,995,170	3,995,170
8.	Debt Management Expenses	1,390	1,390	1,400
9.		3,996,560	3,996,560	3,996,570
10.	TOTAL EXPENDITURE	11,840,270	12,037,080	12,151,960
11.	RENT INCOME			
12.	Dwellings	17,521,680	17,501,440	17,268,070
13.	Service Charges	310,710	348,580	464,490
14.	Garages & Sites	82,820	76,980	84,130
15.	Other	26,100	11,800	25,570
16.	TOTAL INCOME	17,941,310	17,938,800	17,842,260
17.	NET COST OF SERVICES	-6,101,040	-5,901,720	-5,690,300
18.	CAPITAL FINANCING - HISTORICAL DEBT	147,670	147,670	147,670
19.	CAPITAL FINANCING - SELF FINANCING DEBT	3,257,170	3,257,170	3,257,170
20.	INVESTMENT INCOME	-53,020	-71,420	-66,020
21.	PREMATURE LOAN REDEMPTION PREMIUMS	7,060	7,060	7,060
22.		3,358,880	3,340,480	3,345,880
23.	NET OPERATING EXPENDITURE	-2,742,160	-2,561,240	-2,344,420
24.	REVENUE CONTRIBUTION TO CAPITAL	2,610,160	2,610,160	0
25.	DEPRECIATION CREDIT - VEHICLES	-50,730	-50,730	-50,730
26.		2,559,430	2,559,430	-50,730
27.	NET (SURPLUS) / DEFICIT	-182,730	-1,810	-2,395,150
	HRA BALANCES			
28.	Balance Brought Forward	-5,290,619	-5,290,619	-5,292,429
29.	(Surplus)/Deficit for Year	-182,730	-1,810	-2,395,150
30.	Transfer to Loan Repayment Reserve	0	0	6,687,579
31.	Balance as at year end	-5,473,349	-5,292,429	-1,000,000

APPENDIX B

Saving / Increase in Income

Ref	Team	Savings Bid Title	Value	RAG
SAV4	Repairs	Reduction in recurring budget provision associated with the Green & Decent pilot project which will cease April 2016	£21,000	G
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	G
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	G
SAV19	Housing Management	Increase in lifeline income based on RPI increase for existing tenants and additional income generated through new business	£21,119	G
SAV25	Housing Management	Reduction in one off funding for the redesign of the Support Service	£20,000	G
SAV26	HRA Business Support	Stage 2 increase for Simple + premiums for tenants home contents insurance	£7,040	G
SAV28	HRA Business Support	Removal of one off expenditure items included in the 2015/16 budget	£210,000	G
SAV31	HRA Business Support	Reduction in Bad Debt Provision	£45,790	G
De-min SAV	De-minimis (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);£4,647 Savings as a result of control centre maintenance contract (SAV24)	£23,443	G
Total			£3,112,328	

Investment / Reduction in Income

Ref	Team	Investments Bid Title	Value	RAG
BI2	Housing Management	Additional costs for social activities for vulnerable tenants	£10,000	G
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%	£253,610	G
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	£34,950	G
BI20	Housing Management	Reduction in income as a result of withdrawal of Leicestershire County Council Supporting People Grant	£328,100	G
BI25	Planned Investment	Reduction in the value of salary costs charged to the Capital Programme as a result of revised structure	£80,404	G
BI26	HRA Business Support	Increased premium payment due to increase in insurance tax as well as Simple + premiums	£6,340	
De-min BI	De-minimis (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	G
Total			£718,988	

APPENDIX C

COMPARISON OF 2015/16 AND 2016/17 HOUSING CHARGES							
	2015/16		2016/17				
Chargeable Service	Actual 2015/16	Charge	Estimates 2016/17	Increase/ (Decrease)	% Change	Charge	Basis of Increase
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: £1.36 pw 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.