

<b>7 January 2015</b>		<b>ITEM: 5</b>
<b>Housing Overview and Scrutiny Committee</b>		
<b>Housing Revenue Account Base Estimates 2015/16</b>		
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Key	
<b>Report of:</b> Councillor L Worrall, Portfolio Holder for Housing		
<b>Accountable Head of Service:</b> Sean Clark, Head of Corporate Finance		
<b>Accountable Director:</b> Graham Farrant, Chief Executive		
<b>This report is public</b>		

## **Executive Summary**

The report sets out the provisional assumptions regarding the 2015/16 base estimates.

### **1. Recommendation(s)**

- 1.1 That it be noted the Housing Revenue Account (HRA) is estimated to generate a net surplus of £0.617m from operational and financing for the 2014/15 financial year.**
- 1.2 That the projected movement on the HRA reserves (Para 3.2 Table 3) be noted.**
- 1.3 That the provisional base estimates for 2015/16 for inclusion in the overall rent setting strategy for the HRA be noted.**

### **2. Introduction and Background**

- 2.1 The report sets out the base estimates for the Housing Revenue Account (HRA) for 2015/16. The key changes are discussed in the report.
- 2.2 The report identifies changes within the base estimates between 2014/15 and 2015/16. Increases to the budget will need to be funded through savings or an increase to current rent levels. This will be addressed in detail in the rent setting report that is due to be presented to Cabinet on 11 February 2015, and that report will detail the final budget requirement and funding options for the next financial year.

- 2.3 The Housing Revenue Account base estimates have been compiled in accordance with the 30-year business plan. This takes into account the long term strategy for the financial viability of the service.

**Background:**

What are the Base Estimates?

- 2.4 The base estimates represent the cost to the Council of continuing to operate the existing level of service. Any options effecting the level of service will be included within the Housing Rents report to be considered by Cabinet in February 2015.

The major areas of income are:

- Rents and Service Charges - Paid by tenants; and
- Other Income - Income from residential and commercial leaseholder service charges and other miscellaneous sources.

- 2.5 The major items of expenditure on the HRA are:

- Capital Financing - this sum is used to finance the cost of major works as part of the HRA capital programme. This is calculated in accordance with 5 year HRA Capital programme.
- Repairs and Maintenance - responsive repairs, planned maintenance and adaptations;
- Salaries - the cost of employing staff; and
- Funding of further housing development and regeneration. This includes schemes to build 90 new properties which are on site this financial year

**3. Issues, Options and Analysis of Options**

**3.1 Forecast Out-turn 2014/15**

- 3.1.1 Before considering the draft budget position in 2015/16, it is necessary to review the position in 2014/15. This will give an indication of the anticipated level of the HRA balance carried forward into 2015/16. This is detailed in the tables below:

**Table 1 – Service areas**

<b>Service Area</b>	<b>Revised Budget</b>	<b>Forecast Pressures</b>	<b>Forecast Underspends</b>	<b>Total Variance</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Rent and Income	(49,046)	630	(391)	239
Financing	24,179	0	(550)	(550)
Repair and Maintenance	11,600	80	0	80
Supervision and Management	10,431	41	(339)	(298)
Development & Regeneration	2,603	0	0	0
Transformation	233	0	(88)	(88)
<b>Grand Total</b>	<b>0</b>	<b>751</b>	<b>(1,368)</b>	<b>(617)</b>

**Table 2 – Budget Variance**

<b><u>Budget Variances</u></b>	<b>Forecast Pressures</b>	<b>Forecast Underspend</b>	<b>Total Variance</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
-			
Dwelling rent and water rates	320	(47)	273
Voids loss on Dwellings		(240)	(240)
Voids loss on Garages	303		303
Non dwelling rent income	7	(104)	(97)
Responsive housing maintenance	80	0	80
Prudential borrowing interest		(550)	(550)
Landlord service management	0	(39)	(39)
Business management and IT	0	(143)	(143)
Grounds maintenance	0	(23)	(23)
Rent Collection	0	(54)	(54)
Sheltered Housing	0	(80)	(80)
Housing operations	41	0	41
Transformation savings	0	(88)	(88)
<b>Total</b>	<b>751</b>	<b>(1,368)</b>	<b>(617)</b>

**Table 3 – New build schemes**

<b>Scheme</b>	<b>Forecast Scheme Cost</b>	<b>Actual Expenditure 2013/14</b>	<b>Estimated Expenditure 2014/15</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Seabrooke Rise	11,850	25	2,376
Bracelet Close	4,000	7	28
Derry Avenue	7,000	0	816
Empty Homes Renovation	2,116	0	162
Calcuatta Road	6,000		
<b>Grand Total</b>	<b>30,966</b>	<b>32</b>	<b>3,382</b>

3.1.2 Table 3 shows the forecast and actual spend in relation to the Council's new build schemes. Whilst this is classified as Capital expenditure, the HRA part of the funding for such projects can be financed through direct revenue funding. Therefore, the balances within the Development reserve are intrinsically linked to the operating revenue position. In addition, the prudential borrowing costs for financing part of the new build schemes are classified as revenue expenditure, and have a projected savings in 2014/15 of £0.550m. This has arisen as a result of being able to utilise alternative sources of financing first to match expenditure incurred, without having to incur additional borrowing. This is included as part of the £0.617m revenue surplus and is earmarked for future development.

3.2 The Forecast outturn position has the following effect on the level of reserves within the Housing Revenue Account:

Table 4

**Estimated Retained surplus at the end of 2014/15**

	£m	£m
<i>Projected net operational overspends</i>	0.751	
<i>Projected net underspends</i>	(1.368)	
<b>Net Operating Surplus</b>		<b>(0.617)</b>
Contribution to development reserve		(1.815)
<b>Retained Earnings</b>		<b>(2.432)</b>

**Forecast level of financial reserves held within the HRA 31/3/15**

<b>Unallocated Balance</b>	£m
Balance as at 1 April 2014	(2.654)
Use of balances	0
<b>Projected Balance as at 31 March 2015</b>	<b>(2.654)</b>

<b>Major Repairs Reserve</b>	£m
Balance as at 1 April 2014	(2.293)
Use of balances - Transforming homes	2.293
<b>Projected Balance as at 31 March 2015</b>	<b>0.000</b>

<b>Capital Receipts / New Build</b>	£m
Balance as at 1 April 2014	(5.569)
Right to buy receipts retained	(1.500)
Expenditure relating to new build schemes	3.382
<b>Projected Balance as at 31 March 2015</b>	<b>(3.687)</b>

<b>Development Reserve</b>	£m
Balance as at 1 April 2014	0
Budgeted contribution	(1.815)
Net Operating Surplus	(0.617)
Use of balances - Transforming homes	1.000
<b>Projected Balance as at 31 March 2015</b>	<b>(1.432)</b>

## Preparation of 2015/16 Base Budgets

- 3.4 A summary of the inflationary increases between the 2014/15 and 2015/16 budget estimate is shown in Table 5 below.

**Table 5**

	<b>Budget Changes £'000</b>
<b>Budget pressures / inflation:</b>	
Garage rent adjustment	200
Salaries and pay award	114
Inflation on repairs contract @ 2%	118
Inflation on housing SLA	20
Inflation on utilities and fuel	70
Insurance premiums	20
	<b>542</b>
<b>Budget savings:</b>	
Sheltered housing review	(258)
Further staffing efficiencies	(96)
	<b>(354)</b>
Additional budget requirement in 2015/16	188
Indicative Rent increase	(981)
Additional planned maintenance projects	793
<b>Total HRA Net 2015/16 Budget</b>	<b>0</b>

The main reasons for the changes between the budget in 2014/15 and 2016/17 variances are as follows:

- 3.5 **Garage rent adjustment: £0.200m:** There is a two year review currently taking place to bring garages back into use and start to realise the revenue potential of this stock. However, whilst this work is being undertaken, it is felt prudent to re-align the current income projections. It is predicted that following the review, additional revenue will be generated, and can be reinvested back into the HRA.
- 3.6 **Salaries and pay awards: £0.114.** As part of the terms and conditions of employment, incremental increases as well as a provision for a pay award (1%) have been included within the estimates for 2015/16.
- 3.7 **Inflation on Contracts: £0.118m.** This figure has been set as an estimate on inflation that will be applied on the responsive repairs contract with Mears.
- 3.8 **Additional planned maintenance projects - £0.793m:** As part of the Council's commitment to the continuous improvement of the existing stock, the additional funding generated from standard rent increase is proposed to

be invested into additional planned maintenance. This will increase the overall planned works programme to £4.429m. The main focus of the additional funding will be to address works required in relation to damp and mould and external cladding. This spend will lever additional funding from the Energy Company Obligations scheme which is being used to fund this energy saving work.

## **Rent Levels**

- 3.9 The Council has previously followed the government's guidance on rent restructuring introduced in 2004. The government announced a significant change to this guidance for this year and the formula that is used to calculate the base level of rent increase, namely by using the September 2014 CPI figure (1.2%) as opposed to the RPI figure, and removing the standard £2 per week additional increase. Under the former arrangement, the average rent increase would have been around 5.1%. This is made up from 2.8% being the Sep 2014 RPI + 0.5% + 2.3% equivalent to £2 per week on the 2014/15 average weekly rent
- 3.10 In 2014/15 Tenants agreed to a higher rent increase (RPI+£5) meaning the vast majority of properties achieved target rent in this financial year. This increase allowed the department to continue with the major investment programme across the stock and was accepted on the understanding that for 2015/16 the Council will use its discretion to raise rent by the absolute minimum, that equates to 2.2%. Consultation on this minimum rise will take place in December/January before the proposal is presented to Cabinet in February. If agreed, this will mean the average weekly rent for a property in Thurrock will be £87.38, rising from £85.50
- 3.11 For comparison purposes only, the previous rent setting arrangement would have set an average rent of circa £89.86.

## **4. Reasons for Recommendation**

- 4.1 The report sets out the known implications for the HRA budget in 2015/16. Therefore, the recommendations are to note these considerations which will be finalised at the February Cabinet meeting.

## **5. Consultation (including Overview and Scrutiny, if applicable)**

- 5.1 This report will be considered by the Overview and Scrutiny Committee in advance of the February Cabinet meeting.

## **6. Impact on corporate policies, priorities, performance and community impact**

- 6.1 The Council's MTFs recommends that the Council maintains a working balance equivalent to £2.500m.

- 6.2 The management and operation of the HRA strives to supports vulnerable people. The 30-year business plan sets out to ensure there is value for money within the Housing service

## 7. Implications

### 7.1 Financial

Implications verified by: **Mike Jones**  
**Management Accountant**

Financial implications are included within the paragraphs above.

### 7.2 Legal

Implications verified by: **David Lawson**  
**Deputy Head of Legal**

This report has been produced pursuant to Part 2 of the Local Government Act 2003. The Act contains a series of duties and powers that give statutory support to important aspects of good financial practice in local government, but leaves the outcome of those processes to the judgement of local authorities.

The Council has a legal requirement to review the Housing Revenue Account and ensure that it does not go into deficit. In addition, determinations made under the Local Government and Housing Act 1989 prescribed what can be charged to the HRA and the calculation of those charge.

### 7.3 Diversity and Equality

Implications verified by: **Natalie Warren**  
**Community Development and Equalities  
Manager**

The base budget for reflects the Council's policy in relation to the provision of social housing with particular regard to the use of its own stock. In addition to the provision of general housing, it incorporates a number of budgetary provisions aimed at providing assistance to disadvantaged groups. This includes adaptations to the stock for disabled or handicapped tenants

### 7.4 Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

N/A



**8. Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- N/A

**9. Appendices to the report**

- None

**Report Author:**

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