

25 February 2015		ITEM: 12
Council		
Housing Revenue Account Base Estimates 2015/16		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor L Worrall, Portfolio Holder for Housing		
Accountable Head of Service: Sean Clark, Head of Corporate Finance		
Accountable Director: Barbara Brownlee, Housing		
This report is public		

Executive Summary

The report identifies changes within the base estimates between 2014/15 and 2015/16. Increases to the budget will primarily be funded through savings as the rent increase this year has been kept to the absolute minimum and there is no increase to central heating charges.

Some key highlights of this report include an improvement in void turnaround times which has led to a reduction in the rent lost on void properties and a variation on the demand led repairs budget of less than 1%. These together with the negotiated increase in the commission received for the collection the water rates on behalf of Anglian water have ensured the HRA is in a robust position at the end of this year.

1. Recommendation(s)

The Council is recommended to

- 1.1 Agree the budget changes be included in the base budget for 2015/16**
- 1.2 Increase domestic rents by an average of 2.2%, in line with the 30-year HRA business plan from 6 April 2015**
- 1.3 Agree a 2.2% increase in de-pooled service charges for 2015/16**
- 1.4 Agree a 2.2% increase in garage rents for 2015/16**
- 1.5 Agree a freeze in charges relating to central heating in 2015/16**
- 1.6 Agree a 2.2% increase in Travellers sites rents**

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 be funded through a combination of savings on existing expenditure and a minimum inflationary increase to current rent levels.
- 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. Options effecting the service have been considered by Cabinet within the Housing Rents report on 11 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 below:

Table 1 – Overall budget variance

Service Area	Revised Budget	Forecast Pressures	Forecast Underspends	Total Variance
	£000's	£000's	£000's	£000's
Rent and Income	(49,046)	613	(351)	262
Financing	24,179	0	(551)	(551)
Repair and Maintenance	11,600	115	0	115
Housing Management Development & Regeneration	10,431	7	(319)	(312)
	2,603	0	0	0
Grand Total	(233)	735	(1,221)	(486)

Table 2 – Detailed budget variance

Budget Variances	Forecast Pressures	Forecast Underspend	Total Variance
	£000s	£000s	£000s
- Rent and income			
Dwelling rent & water rates	279	(34)	245
Voids loss on Dwellings		(241)	(241)
Voids loss on Garages	308		308
Non dwelling rent income	26	(76)	(50)
Financing – interest payable		(551)	(551)
Repair and Maintenance			
Responsive maintenance	115	0	115
Housing Management			
Landlord services	7	(30)	(23)
Business management & IT	0	(83)	(83)
Rent Collection	0	(109)	(109)
Sheltered Housing	0	(47)	(47)
Housing operations	0	(50)	(50)
Total	735	(1,221)	(486)

Commentary on budget variances

Rent and income

The pressure is as a result of additional sales higher than forecast under the right to buy scheme. When a property is sold, the HRA no longer receives the rental income, but does retain a Capital receipt that is used for investment into new properties.

The level of income received in relation to garages is lower than originally forecast. This is address in the budget proposal for 2015/16 in order to re-align the income expectation to a more prudent level

There has been a reduction in the forecast level of rent lost through void dwellings due to a quicker turn-around time in re-letting the properties. Also shop rent and service charges have yielded more income than originally forecast.

Financing

Through the utilisation of HCA grant monies and retained capital receipts, the HRA has limited the amount of money that it had to prudentially borrowing in 2014/15, therefore savings a predicted £0.551m in interest payments.

Repair and Maintenance

At this stage of the financial year, there is a small variance of £0.115m estimated in relation to housing repairs. This is on a budget of £11.600m, which is partly made up of responsive repairs, which can be volatile as a result of unavoidable fluctuations (such as abnormal weather conditions) in repairs and maintenance demand.

Housing Management

Housing management represents the cost of delivering the landlord and business services functions, as well as central overheads and operational support. Across these services there is a net forecast under spends of £0.312m. The largest of these individually is within the rent collection budget. This is as a result of the revised contract that was negotiated with Anglian water in relation to the amount of commission that the HRA earns by collecting the rates due from its housing tenants. This was forecast to generate an additional £0.200m, for 2014/15, but the outturn projection is that this was actually worth £0.309m, resulting in further income of £0.109m.

Table 3 - New Build Schemes

Scheme	Forecast Scheme Cost	Actual Expenditure 2013/14	Estimated Expenditure 2014/15
	£000s	£000s	£000s
Seabrooke Rise	11,850	25	5,376
Bracelet Close	4,000	7	28
Derry Avenue Empty Homes Renovation	7,000	0	1,816
Calcuatta Road	2,116	0	162
	6,000	0	0
Grand Total	30,966	32	7,382

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.

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>	0.735	
<i>Projected net under spends</i>	(1.221)	
Net Operating Surplus		(0.486)
Contribution to development reserve		(1.815)
Retained Earnings		(2.301)

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

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

Development Reserve	£m

Balance as at 1 April 2014	0
Budgeted contribution	(1.815)
Net Operating Surplus	(0.486)
Use of balances - Transforming homes	1.000
Projected Balance as at 31 March 2015	(1.301)

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

2015/16 Budget Estimates	Budget Changes £'000
Budget pressures / inflation:	
Garage rent adjustment	200
Salaries and pay award	148
Inflation on repairs contract @ 2%	118
Inflation on housing SLA	20
Inflation on utilities and fuel	28
Insurance premiums	20
	534
Budget savings:	
Sheltered housing review	(258)
	(258)
Net Additional budget requirement in 2015/16	276
Additional income from rents	(986)
Additional planned maintenance projects	710
Total HRA Net 2015/16 Budget	0

The main reasons for the changes between the budget in 2014/15 and 2015/16 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: £0.148.** 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. This additional budget has been set to utilise the additional income that the HRA will generate in 2015/16, and represents and investment directly into the housing stock

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 the setting process in 2015/16, namely by using the September 2014 CPI figure (1.2%) + 1% 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
- 3.11 Therefore, the recommendation to Council is that a rent increase equating to 2.2% on average be put forward to Council. If agreed, this will mean the average weekly rent for a property in Thurrock will be £87.26, rising from £85.50. The HRA stock, by bedroom size & average rent is shown below

Bed Room Size	Number of Properties	2015/16 Average Weekly Rent
0	247	£56.51
1	2,862	£73.72
2	2,288	£78.62
3	4,534	£100.63
4	198	£114.29
5	2	£107.52
6	2	£122.96
Grand Total	10,133	£ 87.26

3.12 For comparison purposes only, the previous rent setting arrangement would have set an average rent of circa £89.86, as opposed to £87.26 shown above.

3.14 De-pooled Service Charges

As part of the overall rent calculation, and in order to follow rent restructuring, it is recommended that the de-pooled service charges (caretaking and concierge) are increased by 2.2%. This calculation for this is to ensure that these services are self financing, and this increase will finance inflationary cost pressures that arise in 2015/16. **Members are asked to agree this as per recommendation Para 1.3.**

Other Charges

3.15 Garage rents

The current weekly charges for garage rents are £8.64 for a Council tenant garage and £10.01 for a privately rented garage per week. It is recommended to Council that an increase of 2.20% be agreed in 2015/16, in line with the rate of consumer price inflation that has been applied to housing rents. **Members are asked to agree this as per recommendation Para 1.4.**

3.16 Travellers Sites

The Council currently maintains and provides services for the following sites, Pilgrims Lane, Ship Lane and Gammons Field

The gross cost of providing the service must be recovered by the Council through rent charges, excluding utility charges which are not supported by Housing Benefit payments.

The base budget for travellers' sites for 2014/15 has been reviewed and it is expected that there will be an increase in 2015/16 costs due to inflationary pressures. Therefore, in order to ensure that a breakeven budget is set, a

2.2% increase needs to be applied to the current weekly rent charge.
Members are asked to agree this as per recommendation Para 1.6.

4. Reasons for Recommendation

- 4.1 The report sets out the implications for the HRA budget in 2015/16. The items suggest have been calculated in line with affordability consideration and ensure that financial reserves remain within the agreed levels.

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

- 5.1 The key points in this report have been subject the subject of a presentation to Housing Overview and Scrutiny Committee on 7 January 2015. The report was submitted to Cabinet on 11 February 2015.

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

- 6.1 The Council's MTFs recommends that the HRA maintains its minimum level of general reserves at £1.7m with a maximum level of £3.0m
- 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: **Becky Price**
Community Development Officer

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 residents with disabilities.

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

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