

RISK MANAGEMENT IMPLICATIONS

Risk	Risk Score before any control measures have been put in place to reduce the risk	Control measures, actions and assurances that are currently in place and working that are reducing the risk	Current Risk Score	Strategies and actions that could be introduced to further reduce the risk, including those proposed within this report	Fully Controlled Risk Score indicating the level to which the risk could be reduced in the future
<p>Category: Financial Risk</p> <p>Risk: That the restructuring of services & organisation to ensure the HRA is sustainable in long term is not effectively undertaken. Failure could mean that the savings and efficiencies required are not delivered.</p>	High	<ul style="list-style-type: none"> Robust monitoring arrangements are in place to ensure that the required savings and efficiencies are delivered. 	Medium	<ul style="list-style-type: none"> Chief Financial Officer will provide advice to Committee concerning the level of reserves commensurate with managing this, and other, financial risks. 	Medium
<p>Category: Financial Risk</p> <p>Risk: Failure to maximise income in a difficult economic environment resulting in a shortfall of resources.</p>	High	<ul style="list-style-type: none"> Performance Indicators for income are in place Regular liaison and reporting takes place to Committee 	Medium	<ul style="list-style-type: none"> Chief Financial Officer will provide advice to the Committee concerning the level of reserves commensurate with managing this, and other, financial risks. 	Medium

<p>Category: Financial Risk</p> <p>Risk: Assumptions made in respect of:</p> <p>Pension costs Supporting People Income Number of Right to Buy Sales Level of service charge income Level of bad debts Stock loss through regeneration Pay award and other inflation assumptions Universal Credit Interest Rates</p> <p>Are incorrect resulting in a shortfall in income or an increase in costs.</p>	<p>High</p>	<ul style="list-style-type: none"> • Keep up to date with developments in each of these areas. • Respond to both the external and internal events that influence these factors • General arrangements to mitigate levels of risk are set out in the Council's approved financial framework and include budget monitoring, regular reporting to Committee, Management Team and Heads of Service, interim reports to Committee as appropriate and the use of virement arrangements. 	<p>Medium</p>	<ul style="list-style-type: none"> • Chief Financial Officer will provide advice to the Committee concerning the level of reserves commensurate with managing this, and other, financial risks. 	
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APPENDIX 2

HOUSING REVENUE ACCOUNT

SUMMARY

The Housing Revenue Account includes and expenditure associated with the Council's function as a social housing landlord. The items that can be debited and credited to the account are determined by statute

	2013/14	2014/15 Budget	2014/15 Revised Budget	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£	£	£	£	£	£	£
EXPENDITURE							
Management	1,206	1,308	1,441	1,546	1,458	1,494	1,532
Repairs and maintenance	1,074	1,292	1,297	1,326	1,360	1,394	1,428
Debt Management	14	16	16	16	16	17	17
Depreciation	749	1,157	1,157	1,185	1,215	1,245	1,276
Provision for Bad Debts	28	50	50	89	128	119	109
Gross Expenditure	3,071	3,823	3,961	4,162	4,177	4,269	4,362
INCOME							
Rents	(4,772)	(5,046)	(5,039)	(5,121)	(5,028)	(5,170)	(5,317)
Charges for Services and Facilities	(156)	(110)	(127)	(139)	(195)	(199)	(204)
Gross Income	(4,928)	(5,156)	(5,166)	(5,260)	(5,223)	(5,369)	(5,521)
Interest payable	539	539	539	589	586	611	611
Interest Receivable	(16)	(15)	(15)	(15)	(12)	(14)	(23)
Revenue Contribution to Capital	8	919	931	1,871	464	0	0
Transfers to/(from) Reserves	455	0	0	0	0	0	0
Total Capital Charges and Appropriations	986	1,443	1,455	2,445	1,038	597	588
(Surplus)/Deficit for the Year	(871)	110	250	1,347	(8)	(503)	(571)
Opening Balances							
Housing Revenue Account	(1,026)	(1,897)	(1,897)	(1,647)	(300)	(308)	(811)
Major Repairs Reserve	(445)	(1,012)	(1,012)	0	0	0	(32)
Regeneration Reserve	(500)	(500)	(500)	(500)	(200)	(200)	(200)
Bad Debt Provision	(96)	(85)	(85)	(135)	(224)	(352)	(471)
Closing Balances							
Housing Revenue Account	(1,897)	(1,787)	(1,647)	(300)	(308)	(811)	(1,382)
Major Repairs Reserve	(1,012)	(264)	0	0	0	(32)	(65)
Regeneration Reserve	(500)	(500)	(500)	(200)	(200)	(200)	(200)
Bad Debt Provision	(85)	(135)	(135)	(224)	(352)	(471)	(580)

Service Statistics

	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
Average Number of Dwellings	1,251	1,243	1,235	1,231	1,229	1,225
Housing Rent						
Rent per dwelling	76.98	76.91	78.65	80.22	82.63	85.11
Unpooled Service Charge	1.30	1.35	1.38	1.42	1.45	1.49
Total Rent	78.28	78.26	80.03	81.64	84.08	86.60
Rent per standard garage	5.91	6.10	6.24	6.39	6.55	6.72

Specific Charges

In addition to Dwelling Rents the HRA makes charges for other associated services offered to tenants. It is proposed that these increase by 2.26 % which is inline with rent increases.

	2014/15 Current Charge	2015/16 Proposed Charge		
	£	£		
<u>Garage Spaces</u>				
48 Week Basis	3.58	3.65		
52 Week Basis	3.30	3.37		
<u>Lock up Garages</u>				
48 Week Basis	6.61	6.75		
52 Week Basis	6.10	6.23		
<u>Caretaking Charge (Lower Rate)</u>				
48 Week Basis	2.86	2.86		
52 Week Basis	2.64	2.64		
<u>Caretaking Charge (Higher Rate)</u>				
48 Week Basis	5.71	5.84		
52 Week Basis	5.27	5.39		
<u>Heating and Hot Water Charges in Sheltered Schemes</u>				
		Increase for 2014/15		
		%		
Chartwell House, Oadby		2.26		
Marriott House, Oadby		2.26		
William Peardon Court, Oadby		2.26		

CAPITAL PROGRAMME APPENDIX 3

The councils housing capital programme covers improvements to the housing stock and works to meet the 'Decent Homes' target.

2013/14 saw the Council move to a 'whole unit refurbishment' strategy when implementing major replacement programmes. The Boulter Crescent Estate was chosen as the first of these due to its age, built around 1972, and because it has not been part of the current replacement programme which is now drawing to an end.

Scheme Description	2013/14 Actual	2014/15 Budget	2014/15 Revised Budget	2015/16 Budget	2016/17 Estimates	2017/18 Estimates
	£'000	£'000	£'000	£'000	£'000	£'000
Boulter Crescent Whole Unit Refurbishment *	399	2,760	2,783	3,447	920	0
Central Heating	23	100	390	0	0	0
Kitchens and bathrooms	28	0	0	0	0	0
Heating Ventilation and Insulation	0	75	114	0	0	0
Front and Rear Doors	0	75	75	0	0	0
Decent Homes Work	46	50	79	0	0	0
Car Hardstandings	0	20	50	0	0	0
Major Adaptations	138	120	123	0	0	0
Fire Safety Work	4	10	41	0	0	0
CCTV Scheme	0	30	0	30	0	0
Subsidence Work	0	0	4	0	0	0
Software up grade	8	60	37	53	0	0
Grant for Social Housing	0	0	160	0	0	0
New Housing Initiatives	0	0	0	300	0	0
Stock Condition Work - unprogrammed	0	0	0	0	1,589	1,213
Total Housing Capital Programme	646	3,300	3,856	3,830	2,509	1,213
Funding						
Major Repairs Reserve	638	1,905	2,169	1,185	1,186	1,213
Revenue Contribution to Capital	8	974	931	2,068	1,323	0
Earmarked Capital Reserves	0	0	160	0	0	0
Regeneration Reserve	0	0	0	300	0	0
Borrowing	0	421	596	277	0	0
Total Funding	646	3,300	3,856	3,830	2,509	1,213
* Plus Year 10 (Final Year) Schemes of original programme						

HOUSING REVENUE ACCOUNT BUDGET BACKGROUND CONSIDERATIONS FOR CAPITAL PROGRAMME 2014/15 INCLUDING THREE-YEAR FORWARD FINANCIAL FORECAST TO 2017/18

BACKGROUND CONSIDERATIONS

This Appendix provides commentary on the background considerations and key issues on which the draft budget and forward forecast at **Appendixes Nos 2 and 3** have been prepared. It also summarises the overall financial position. The structure of this commentary is as follows:

1. Basis for preparation of the draft budget and forward forecast.
2. Rent Policy
3. Changes in Stock Levels
4. Treasury Management
5. HRA Capital Programme
6. Other budget considerations
7. Summary of variances from previous budget forecast

1. Basis for preparation of the draft budget and forward forecast

The revenue budget for 2015/16 and forward financial forecast attached at **Appendix No.2** gives an assessment of the costs of delivering current levels of service but anticipates where reductions in costs may be necessary as a consequence of funding changes e.g. Supporting People.

The budget and forward financial forecast have been prepared against the background of the Government's strategy to address the deficit in the national public finances and the continued economic difficulties that the country is facing. Aspects of the forecast that could be affected by these issues have been identified in the risk management implications in **Appendix No 1** and are mentioned, where appropriate, in the following commentary.

The budget and forward forecast assume the following pay awards

2015/16 2.2%
2016/17 1.0%
2017/18 1.0%

2. Rent Policy

Since 2001, rents for social housing have been set based on a formula set by Government. Rents were increased each year by RPI + 0.5% plus an additional £2 where rents were below the Government set formula. It was originally planned that target rents would be reached by 2011/12 however due to Government attempts to keep rents affordable this was put back to 2015/16 by limiting some annual rent increases.

The Government announced a proposed revision to the policy for social rents during the spending round in June 2013. The headline change was for social rents to increase by CPI + 1% for the 2015/16 rent year and for the subsequent 10 years.

DCLG has subsequently consulted with the housing sector setting out that in addition to the change in the headline rate of rent increase, they (Government) are not minded to allow further rent convergence after the 2014/15 rent increase. However formula rents will continue to be calculated in order to measure the effect on the business plan of the new rent policy and its effects on the viability of the plan.

The move from RPI + 0.5% to CPI + 1% is unlikely to have a major impact on the business plan. In September 2014 CPI +1% equalled and increase of 2.26% for the year compared to RPI +0.5% which equalled 2.8% Previous assumptions built into the plan are for costs to increase by RPI (2.5%) and rent to increase by RPI + 0.5% (3%). Under the new regime, rents will increase by CPI + 1%. Therefore, if the council keeps costs to CPI + 0.5% there is no underlying change. This appears to be a reasonable aspiration.

In 2014/15, rents were on average £2.97 per property below convergence. The average rent in 2014/15 was £76.91 compared with a formula rent of £79.88. However, a number of properties did reach convergence in 2014/15. The 2014/15 business plan was based on all rents eventually reaching convergence. This is something which will now not take place if the governments current rent policy continues to be applied in future years.

The proposed rent increase for 2015/16 moves the average rent to £78.65 against a formula rent of £81.67. The business plan assumption in future years is that this gap of, on average £3.02 per week will not be made up over the lifetime of the plan and hence reduce investment capacity by over £200k per year from the time of convergence.

This assumes that there is no re-letting of properties to target rent after 2015/16 with all rents increasing by 3% per annum. However, if we include some re-letting activity to what would have been formula rent this will increase the rental income.

Overall, this does not impact on the viability of the plan with the capital needs of the current stock fully met. However, it will have a negative impact on the investment capacity.

The average rent rise for Oadby and Wigston tenants based on the new proposals will be 2.26% for 2015/16, with actual rent increases being in the range of £1.29 to £2.17 per week.

	Current Weekly Rent	New Rent per week	Change Rent per week	Change	Property Type
	£	£	£	%	
Highest Rent	95.91	98.08	2.17	2.26%	3 Bed House
Lowest Rent	57.20	58.49	1.29	2.26%	Bedsit
Average Rent	76.91	78.65	1.74	2.26%	

It should be noted that Local Authorities are not compelled to the new proposed social rent policy. However, a decision not to do so would not change the Government's position with regard to the self-financing settlement. i.e., if the Council chose to raise rents by a lower figure than that set out in the self-financing calculations, the Government would not reopen and change the self-financing debt settlement to reflect this and the cost of the decision would fall on the HRA.

3. Changes in Stock Levels

From 1 April 2014 the maximum discount was raised from £75,000 to £77,000 for those tenants who wished to exercise their right to buy (RTB). This has resulted in the increased sales from 2013/14 continuing through 2014/15. The Government has introduced arrangements that ensure that Council's do not suffer a financial penalty should this change in policy result in a greater number of RTBs than was assumed in the self financing strategy as a proportion of the sales can be retained to repay some of the debt incurred in the original self financing agreement.

Additionally once HM Treasury and the Council have taken their appropriate share of the sale proceeds any amount left over can be retained by the Council to use to fund replacement affordable housing. While it is difficult to accurately predict future sales, the sales to December 2014 have yielded a sum of £52,000 that can be used for this purpose. The rules set by the Government mean that this sum can only fund 30% of the cost of replacement housing so £120,000 needs to be found from elsewhere. The funding of additional and replacement affordable housing is an option that the Council will take into consideration when finalising the budget proposals.

There is a risk that stock losses do not follow the pattern assumed in the budget and forecast. This could mean that either savings in costs are made ahead of time or that they are not made in time. The Council's Finance and Housing teams will monitor the developments in this area very closely.

4. Treasury Management

The self financing settlement involved the Council taking on £18.114m of borrowing. The interest costs on this borrowing consume a significant proportion of the HRA's resources and the management of these is therefore critical to the HRA budget. For 2015/16, in the interests of corporate efficiency, the Council is moving to a combined loans pool for both HRA and General Fund.

The 30 year business plan provides the repayment of HRA debt over its life. However, because resources are required in the early years of the plan to fund the demands of the asset management strategy, repayment cannot begin until 2020. The HRA debt is therefore structured to mature from year 2020 onwards.

Under the subsidy system the Government carried the risk of adverse movements in interest rates but under the self financing regime it is the Council that carries this risk. To mitigate this risk the vast majority of the HRA's borrowing is for a fixed term at a fixed rate.

5. HRA Capital Programme

The draft capital programme (**Appendix No. 3**) is funded from a combination of the major repairs allowance, revenue contributions to capital expenditure and the Regeneration Reserve. Borrowing will be restricted by the self-financing debt cap, of £21.769m.

The future levels of Major Repairs Allowance built into the draft capital programme are based upon the updated allowances used in the self-financing calculation. It reflects changes in inflation and stock numbers.

The capital programme will continue to balance the need to maintain decent homes and other priorities such as health and safety, aids and adaptations, sustainability, energy efficiency and meeting tenants' aspirations. To this end, a 30 year Asset Management Strategy is being prepared, and this links into the 30 year HRA Business Plan through the Regeneration Reserve. The Regeneration Reserve will initially be used to help plug any funding gap in the Capital Programme but could be used in later years to repay debt or fund other priorities such as new housing initiatives. Modelling the funding demands over the 30 year Asset Management Strategy against funding demonstrates that there is funding available for maintaining the Council's properties up to decent homes standard and further investment.

Contained within the capital programme for 2015/16 is £300,000 to allow the Council to actively investigate and propose new housing initiatives within the borough. This will be funded from the Regeneration Reserve.

The 30 Year Capital Programme will be finalised once the review of the Asset Management Strategy is completed and a revised programme will be presented at a future Committee.

6. Other Budget Considerations

Universal Credit and Benefit Cap – Provision for Uncollectible Debts and Collection Costs

The provision for uncollectible debts at 31 March 2014 was £85,000. A provision for bad debts is made in respect of both former tenant arrears and current tenants and performance in this area has improved considerably in the past few years.

The introduction of the Universal Credit and the benefit cap from 2013/14 includes the direct payment of housing support to the tenant. Currently housing support is paid directly to the landlord, and the National Housing Federation, as well as many social landlords, is concerned that this change will lead to increased rent arrears. It has been estimated that such an initiative will lead to an increase in rent arrears of over 100% and this has been reflected in the budget.

Nevertheless, a pilot study already carried out by one large housing association identified significant additional transaction costs. In recognition of this additional impact of changing over to directly paying benefit to tenants it is planned that a budget will be established to pay for any extra transaction or collection costs arising from this change.

Six pilots for the Universal Credit have recently been completed and reports suggest that arrears levels in these pilots were between 10 and 20%. The Council is monitoring rent arrears closely and budget provision will be made to cover an increase in bad debts.

Supporting People Funding

There have been significant reductions in Supporting People (SP) funding over the last two years. Funding will continue until September 2015 when the agreement ends. This has been reflected in the 2015/16 Budget

General Fund Recharges

As part of challenging all budgets a review is taking place of the recharges between the General Fund and the HRA. These consist of recharges of a proportion of both support service costs and corporate management costs based on estimate of the split in costs between the General Fund and the Housing Revenue Account

Service Charges

Service charges for 2014/15 have been increased by 2.26%, which is the same increase as applied to housing rents, garage rents and other miscellaneous charges.

30 year HRA Business Plan

Integral to the transition from the subsidy system to the self-financing regime, and underpinning both the self-financing debt calculation and Council HRA planning, has been the development of a 30 year business plan.

The first four years of the business plan match the draft forward financial forecast as shown in **Appendix No. 2**.

An updated financial plan is included in **Appendix 5**