APPENDIX 3

HOUSING REVENUE ACCOUNT (HRA) 2014/15

1. 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. Shown below are the 2013/14 budget figures and the forward forecast under the HRA Business Plan.

	2012/13 Actual £	2013/14 Budget £	2013/14 Revised Budget £	2014/15 Budget £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
EXPENDITURE							
Management	1,234	1,228	1,197	1,308	1,247	1,278	1,310
Repairs and maintenance	1,092	1,317	1,311	1,292	1,324	1,357	1,391
Debt Management	15	16	16	16	16	17	17
Depreciation	710	1,205	1,205	1,157	1,186	1,216	1,246
Provision for Bad Debts	25	47	47	50	89	131	121
Gross Expenditure	3,076	3,813	3,776	3,823	3,862	3,999	4,085
INCOME							
Rents	(4,589)	(4,801)	(4,777)	(5,046)	(5,090)	(5,234)	(5,382)
Charges for Services and Facilities	(258)	(186)	(161)	(110)	(102)	(104)	(107)
Gross Income	(4,847)	(4,987)	(4,938)	(5,156)	(5,192)	(5,338)	(5,489)
Interest payable	539	539	539	539	551	557	574
Interest Receivable	(11)	(15)	(15)	(15)	(11)	(12)	(20)
Revenue Contribution to Capital	0	725	725	919	1,323	786	0
Transfers to/(from) Reserves	633	0	0	0	0	0	0
Total Capital Charges and Appropriations	1,161	1,249	1,249	1,443	1,863	1,331	554
(Surplus)/Deficit for the Year	(610)	75	87	110	533	(8)	(850)
Opening Balances							
Housing Revenue Account	417	1,027	1,027	940	830	297	305
Major Repairs Reserve	122	445	445	804	0	0	0
Regeneration Reserve	0	500	500	500	500	500	500
	539	1,972	1,972	2,244	1,330	797	805
Bad Debt Provision	75	96	96	143	193	282	436
	614	2,068	2,068	2,387	1,523	1,079	1,241
Closing Balances							
Housing Revenue Account	1,027	952	940	830	297	305	1,155
Major Repairs Reserve	445	71	804	0	0	0	0
Regeneration Reserve	500	500	500	500	500	500	500
	1,972	1,523	2,244	1,330	797	805	1,655
Bad Debt Provision	96	143	143	193	282	436	557
	2,068	1,666	2,387	1,523	1,079	1,241	2,212

2. Service Statistics

Service Statistics	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Average Number of Dwellings	1,258	1,251	1,244	1,238	1,236	1,234
Housing Rent						
Rent per dwelling	68.44	72.34	76.98	79.29	81.67	84.12
Unpooled Service Charge	1.26	1.30	1.35	1.38	1.42	1.45
Total Rent	69.70	73.64	78.33	80.67	83.09	85.57
Rent per standard garage	5.70	5.91	6.10	6.25	6.41	6.57

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 3.2% which is inline with inflation.

	2013/14 Current Charge £	**2014/15 Proposed Charge £**
Garage Spaces		
48 Week Basis	3.47	3.58
52 Week Basis	3.20	3.30
Lock up Garages		
48 Week Basis	6.40	6.61
52 Week Basis	5.91	6.10
Caretaking Charge (Lower Rate)		
48 Week Basis	2.78	2.86
52 Week Basis	2.57	2.64
Caretaking Charge (Higher Rate)		
48 Week Basis	5.53	5.71
52 Week Basis	5.10	5.27

Heating and Hot Water Charges in Sheltered Schemes	Increase for 2014/15 %
Chartwell House, Oadby	3.2
Marriott House, Oadby	3.2
William Peardon Court, Oadby	3.2

3. Capital Programme

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	**2012/13 Actual** £'000	**2013/14 Budget** £'000	**2013/14 Revised Budget** £'000	**2014/15 Budget** £'000	**2015/16 Estimates** £'000	**2016/17 Estimates** £'000
Boulter Crescent Whole Unit Refurbishment	0	1,811	872	2,760	920	0
Central Heating	17	150	313	100	0	0
Kitchens and bathrooms	433	0	67	0	0	0
Heating Ventilation and Insulation	0	100	0	75	0	0
Front and Rear Doors	0	0	0	75	0	0
Decent Homes Work	0	0	75	50	0	0
Car Hardstandings	0	30	30	20	0	0
Major Adaptations	19	120	141	120	0	0
Fire Safety Work	50	0	35	10	0	0
CCTV Scheme	0	0	0	30	0	0
Software up grade	0	93	38	55	0	0
Case management System	0	0	0	5	0	0
Stock Condition Work - unprogrammed	0	0	0	0	1,589	2,572
Total Housing Capital Programme	**519**	**2,304**	**1,571**	**3,300**	**2,509**	**2,572**
Funding						
Major Repairs Reserve	519	1,579	846	1,961	1,186	1,216
Revenue Contribution to Capital	0	725	725	919	1,323	786
Earmarked Capital Reserves	0	0	0	0	0	0
Borrowing	0	0	0	420	0	570
Total Funding	519	2,304	1,571	3,300	2,509	2,572

Boulter Crescent Estimated Breakdown.

	2014/15 £'000	2015/16 £'000
Kitchens	212	55
Bathrooms	141	37
Flat Front Doors	64	17
Heating Ventalation	623	162
Electrical Re-wiring	184	48
Internal Alterations	868	226
External Alterations	396	103
Other works	272	272
	2,760	920

4. Background Considerations

This section provides commentary on the background considerations and key issues on which the draft budget and forward forecast at sections 1 to 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

4.1 Basis for preparation of the draft budget and forward forecast

The revenue budget for 2014/15 and forward financial forecast attached at section 1 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 5** and are mentioned, where appropriate, in the following commentary.

The budget and forward forecast assume the following pay awards

2014/15 1.0%
2015/16 2.5%
2016/17 2.5%
2017/18 2.5%

4.2 Rent Policy

In 2002 the Government adopted a policy of rent restructuring which aimed at harmonising rents in the social housing sector (local councils and housing associations) over a period of 10 years. It was planned that target levels would be reached in 2011/12. However, in each year since 2008/09 the year of convergence has been changed largely to achieve the objective of keeping rent increases at affordable levels for tenants. The current timetable is for convergence to be reached in 2015/16. This is consistent with the convergence timetable used in the proposals for HRA self-financing.

Rent increases are subject to restrictions to protect individual tenants from excessive increase in one year:

- 'caps' on the target level of rents for dwellings based on the number of bedrooms.
- A limit on individual increases in any one year equivalent to the percentage increase in the Retail Price Index +0.5% + £2 per week.

Previously, local authorities have been funded, a year in arrears, for the loss of rental income through the operations of these caps and limits via an adjustment to the subsidy calculation. The Government has assumed that these caps and limits will still operate until convergence is reached in 2015/16 but has recognised this loss of rental income in the self-financing debt settlement calculation.

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. Current rent policy allows for a rent increase of RPI + 0.5% plus an element for rent convergence up to a maximum of £2.

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. Modelling of the likely scenarios has been undertaken to test the impact on rental income and the business plan.

Firstly, the move from RPI + 0.5% to CPI + 1% is unlikely to have an impact on the business plan. Current 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%. Assuming CPI performs at its target rate of 2% this also equates to 3%. Therefore, if the council keeps costs to CPI + 0.5% there is no underlying change. This appears to be a reasonable assumption.

However, the current assumption in the business plan is that rental income follows rent restructuring and assumes that rents will converge with formula over time. Formula rent is increasing by RPI + 0.5% and actual rents increasing by RPI + 0.5% + £2.

In 2013/14, rents were on average £4.73 per property below convergence. The average rent in 2013/14 was £72.34 compared with a formula rent of £77.07. The average figures masks the property by property position with some properties further from convergence. Therefore with the £2 cap in place, not all rents would have converged until 2022/23 although 99.9% would have converged by 2019/20.

The proposed rent increase for 2014/15 moves the average rent to £76.78 against a formula rent of £79.93. This rental increase utilises the maximum flexibility of the £2 convergence related increase. The business plan assumption in future years is that this gap of, on average £3.15 per week will not be made up over the lifetime of the plan and hence reduce investment capacity by over £200,000 per year from the time of convergence.

This assumes that there is no re-letting of properties to target rent after 2014/15 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 these proposals is estimated at an average of 6.41% for 2014/15. There is, however, much variation around this average and the following table provides some exemplifications of this: (note all figures are given as a 52 week rent figures whereas the equivalent charge is actually spread over 48 weeks)

	Current Weekly Rent	**New Rent per week**	**Change Rent per week**	**Change**	**Property Type**
	£	£	£	%	
Highest % Increase	53.23	57.20	3.97	7.46%	Bedsit
Lowest % Increase	90.56	95.91	5.35	5.91%	3 Bed House
Highest Rent	90.56	95.91	5.35	5.91%	3 Bed House
Lowest Rent	53.23	57.20	3.97	7.46%	Bedsit
Average Rent	72.34	76.98	4.64	6.41%	

It should be noted that Local Authorities are not compelled to follow the policy of rent restructuring nor indeed 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 that 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.

4.3 Changes in Stock Levels

From 1 April 2012 the maximum discount was raised to £75,000 to those tenants who wished to exercise their right to buy (RTB). This has resulted in an increase in sales over last year. 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.

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 in the first nine months of 2013/14 have yielded a sum of £27,000 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 £64,000 needs to 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 that they are not made in time. The Council's Finance and Housing teams will monitor the developments in this area very closely.

4.4 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.

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.

4.5 HRA Capital Programme

The draft capital programme, shown in section 3 is funded from a combination of the major repairs allowance, revenue contributions to capital expenditure and the Asset Management 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 Asset Management Reserve; the Asset Management 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. 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.

Reserve levels over and above the £0.3m that the Chief Financial Officer considers appropriate for the HRA have currently been shown as having been transferred to an Asset Management Reserve. The intention would be to use these funds, subject to Cabinet approval, to make revenue contributions to capital outlay to supplement the capital program.

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.

4.6 Other Budget Considerations

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

The provision for uncollectible debts at 31 March 2013 was £96,000. 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 University 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 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 budget will be reviewed once further information from these pilot studies become available and as a consequence both the provision for bad debt and the allowance for additional transaction costs may rise.

Supporting People Funding

There have been significant reductions in Supporting People (SP) funding over the last two years. This will continue but at this stage the Council is not fully aware of the impact of the proposals. For the purposes of budgeting, it has been assumed that no SP funding is received in future years.

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 3.2% which is the same increase as applied to 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 **Section 1**.