

**COMMUNITIES DIRECTORATE
HOUSING REVENUE ACCOUNT
ESTIMATES 2015/16**

HRA Budget 2015/16
Recommendations of the Finance and Performance Cabinet Committee to the Cabinet Meeting
(to be held on 2nd February 2015)

- (1) That the Cabinet be requested to note that rent increases proposed for 2015/16 will give an average overall increase of 2.2%;
- (2) That, in respect of the Council's Careline Service and the Scheme Management Service for sheltered housing and area schemes:
- (a) The loss of £133,000 per annum Housing Related Support (HRS) funding from Essex County Council be noted;
 - (b) The charges for the Council's Careline Service be increased by £0.27 per week, for both Council tenants and private clients, with effect from 6th April 2015 and that the Cabinet's previous decision to increase the charge for private clients by £0.20 per week from 6th April 2015 be rescinded;
 - (c) Following a review of the duties undertaken by Scheme Managers, 10% of their time previously attributed to Housing Related Support be re-classified as Intensive Housing Management and charged as a Service Charge accordingly (which is eligible for housing benefit);
 - (d) The charges for the Council's Scheme Management Service (funded from Housing Related Support Charges and Intensive Housing Management Service Charges) be increased by 5% from 6th April 2015;
 - (e) The increased charges for the Careline and Scheme Management Services provided to Council tenants in receipt of housing benefit not be met through any increase in compensating Housing Related Support Credit and that, furthermore, the Housing Related Support Credit currently received by such tenants be reduced by 8% with effect from 6th April 2015;
 - (f) The intention;
 - (i) For the Careline Service to break-even; and
 - (ii) The loss in HRS funding for the Scheme Management Service to be fully recovered from April 2016;
- be noted but, as a result of spreading the required increases in charges over two years, it also be noted that the HRA will be subsidising the Careline Service and Scheme Management Service by around £58,000 during 2015/16; and
- (g) That the potential for further reductions in HRS by Essex County Council in 2015/16 and/or 2016/17 be noted.

HOUSING REVENUE ACCOUNT ESTIMATES 2015/16

Introduction

The Housing Revenue Account (HRA) has been prepared in accordance with the Local Government and Housing Act 1989, as amended by the Leasehold Reform, Housing and Urban Development Act 1993 and the Local Government Act 2003. Under this legislation the Secretary of State for the Department of Communities and Local Government (CLG) has the power to issue directives in respect of appropriate income and expenditure items.

The balance at 31 March 2014 was £2.966m, after a deficit of £0.409m in 2013/14 and a deficit is expected in 2014/15 and a small surplus in 2015/16. The major influences on these figures have been in 2014/15 increasing the Revenue Contributions to Capital, as a consequence of New Build acceleration, which may now be delayed. Council rents income has increased by £0.4m year on year and the proposal to transfer a 10% average, annually of the variable rate loan taken out on the inception of HRA self financing to a debt repayment reserve draws £3.18m from the HRA a year. Falling from 2016/17 to rise again in 2019/20.

The HRA subsidy system ceased at the end of 2011/12 when this Council was required to pay to Whitehall their notional HRA surplus, as determined by the subsidy settlement. From April 2012 the new Self Financing system, where councils will keep all rents in exchange for an allocation of housing debt came into effect. The council borrowed £185.456m in 6 tranches, 5 long term fixed rate loans maturing in 2038 and annually thereafter, and 1 shorter term variable loan maturing in March 2022.

Thirty Year Forecast

The Council has for a number of years produced an HRA thirty year forecast, however with the advent of self financing this has taken on more prominence. The forecast is updated on a regular basis to check actual progress against the plan and where necessary make amendments. The updated forecast is presented to members twice annually.

Five Year Forecast

An updated HRA five year forecast to the year 2019/20 will be produced once the budget has been finalised and the 30 year forecast updated.

Management and Maintenance

Management and maintenance expenditure in 2014/15 has reduced by 4.1% (£597,000) in the probable outturn compared to the original estimates. In 2015/16 the costs have decreased by 2.4% (£341,000) compared to the original 2014/15. Please refer to the detailed page for Supervision and Management General for a detailed analysis. Increases of between 2.8% and 74% on most of the headings. The HRA will be subsidising the net loss income for 2015/16 by £58,000 associated with the loss of funding from ECC for .Housing Related Support.

Service Enhancements

The Service Enhancements in 2015/16 are estimated at Capital £1,286,000 and Revenue £248,000. This includes £367,000 set aside for major capital projects in future years.

Depreciation

Under IFRS, introduced for the financial year 2010/11 there is a requirement to value and depreciate significant components of assets separately. The life cycles used until 31 March 2012 were based on the decent homes standard, however from 1 April the Council's New Modern Home Standard has been used which has meant that generally components will be replaced sooner than before. The effect was to increase substantially the depreciation charge. Since then the Council has agreed with the External Auditor a revised method of calculating the depreciation charge lowering it to £13.2m in 2014/15 and £13.5m in 2015/16.

Housing Repairs Fund

The Housing Repairs Fund balance at the start of 2014/15 was £2.753m, and is estimated to be reduced down to £0.076m by the end of 2019/20. The contribution for 2014/15 and 2015/16 has been set at £5 m, but based on current expenditure this is not sufficient to meet the demands placed on the fund. The contribution has been increased to £5.5m after 2015/16.

Major Repairs Reserve

The Major Repairs Reserve balance as at the end of 2013/14 was £11.359m, and is predicted to reduce to £2.16m by the end of 2018/19.

Capital Expenditure

Capital expenditure charged to revenue is based on the latest predictions of availability of funds to finance the capital programme. The contribution in 2014/15 is forecast to be £5.2m. In 2015/16 this falls to £4.9m.

Housing Repairs Service

The Housing Repairs Service carries out a significant proportion of the repairs required to the Council's stock. The total cost of the Service is recharged to either the Housing Repairs Fund or (for capital projects) to the HRA Capital Programme. There is also a small amount of work carried out for the General Fund.

Proposed Rent Increase

From 2003/04 rents have been set with reference to a Government formula based on property values, number of bedrooms and local earnings. The scheme was referred to as rent restructuring, and its intention is to ensure that rents for broadly similar properties should be the same, regardless of whether the landlord is the local authority or a registered social landlord.

The proposed average rent increase for 2015/16 is 2.2% (£2.10), which gives an average weekly rent for 2015/16 of around £97.54 per week.

The Council has complied with the Government's previous rent restructuring regime. The Government now has a Social Rents Policy which includes formula rents. The end of rent restructuring resulted in an estimated £40m loss of rental income over the 30 year HRA Plan. Most Social Landlords re-let vacant property at the "target rent" for the property, which the Council has also done from 5th April 2014. Estimated additional income was £50,000 in 2014/15 and in subsequent years.

Interest on Receipts and Balances

The HRA interest income has remained relatively low during 2014/15 as the bank rate has remained at 0.5% since March 2009 and the further decline of the financial markets has meant that the Council can only invest with a limited number of counterparties and for shorter durations. All these have contributed to lower yields being achieved.

Interest Payable on Loans

This is a new charge to the HRA for the servicing of debts the Council has taken to fund the CLG's Self-Financing Debt Settlement.

Self-Financing Reserve

As part of the debt portfolio taken out toward the end of 2011/12 a variable loan of £31.8m for 10 years was included. The thirty year plan demonstrates that HRA balances will have increased sufficiently for this to be repaid in 2021/22. It is however felt that a sum equivalent to an average of 10% per annum should be set aside in a Self-Financing Reserve so that this money is separately identified for this purpose. It may be necessary to amend the capital expenditure profile within the thirty year plan for this to be possible. A pattern of contributions has been agreed previously by Members, reducing to £1.25million from 2016/17 and starting to rise again from 2019/20.

Minimum HRA Balance

The agreed level of balance to be achieved is £2million, and this has been achieved in 2015/16.

The Council's Careline Service and Scheme Management Service for sheltered housing and area schemes - Reduction in Housing Related Support (HRS) funding by Essex County Council

The Council currently receives around £306,000 from Essex County Council's (ECC's) Housing Related Support (HRS) Budget towards the cost of providing the Councils Careline Service and its Scheme Management Service for older Council tenants in receipt of housing benefit living in sheltered housing or an area scheme. However, due to ECC reducing its HRS Budget by around 10% (£2 million) per annum across the County, ECC is reducing its HRS funding to this Council by £133,000 (43%) per annum from April 2015 (£52,000 for Careline and £81,000 for Scheme Management).

Since the HRA is unable to sustain such a large reduction in HRS funding in the long term, the Housing Portfolio Holder has asked the Director of Communities to undertake a review on how this lost income can be replaced, primarily through a combination of increased charges to users of the two services and, in particular, the introduction of charges for tenants in receipt of housing benefit (who do not currently pay anything for these services) - whilst spreading the impact of the required increased/new charges over a two-year period.

Careline Service

The Careline Service currently operates at a small annual deficit of around £16,000 per annum. In order for the Careline Service to break-even after accounting for this small deficit and, particularly, the loss in HRS funding, the charges made to Council tenants and private clients for Careline would need to increase by 54p per week from April 2015. However, in order to spread the required increases over a two-year period, it is proposed that Careline charges only be increased by 27p per week from April 2015, with an intention to increase charges by a similar amount in April 2016 (subject to no further reduction in HRS funding).

It should be noted that this is a higher increase for private clients than agreed by the Cabinet in December 2014, following the review of housing-related fees and charges by the Finance and Performance Management Cabinet Committee. However, it should also be noted that this Council currently makes the lowest charges for Careline / telecare services in Essex, which will continue to be the case even after this proposed increase. Moreover, if this Council increases its charges by a further 27p per week in April 2016, it is expected that this Council's charges will still be the second lowest in Essex - even if other councils do not increase their charges over the next two years, which is considered likely.

In the past, any increase in Careline charges to Council tenants in receipt of housing benefit has been met by a corresponding increase in the Housing Related Support Credit made to tenants' rent account. However, due to the reduction in HRS funding from ECC, this is no longer possible. Therefore, such tenants will need to meet the cost of this increase themselves for the first time.

Scheme Management Service at Sheltered and Area Schemes for Older People

In order for ECC's £81,000 per annum cut in HRS funding for Scheme Management to be met from increased charges to tenants, the current Housing Related Support Charge made to older tenants in sheltered housing and area schemes would need to increase by around 30%.

However, following consideration of a number of alternative options put forward by the Director of Communities, the Housing Portfolio Holder is proposing a range of measures to mitigate the effect of increasing charges to tenants, whilst ensuring that the loss in HRS funding is fully-funded from increased charges by April 2016.

Firstly, a review has been undertaken of the amount of time that the Council's Scheme Managers spend on activities relating to "Housing Related Support" and, separately, to "Intensive Housing Management". As a result, it has been established that around 10% of their time is spent on the latter, instead of the former. Therefore, it is proposed that a new service charge be introduced to cover the costs of providing Intensive Housing Management and that the Housing Related Support Charge be reduced by an equivalent amount. Apart from a more appropriate categorisation of duties, which has no effect on tenants who are not in receipt of housing benefit and who therefore pay the charge themselves, an advantage of introducing such a change is that older tenants in receipt of housing benefit are eligible to receive housing benefit towards the cost of receiving Intensive Housing Management, but not Housing Related Support.

Secondly, it is proposed that both the Housing Related Support Charge and the Intensive Housing Management Service Charge are increased by 5% from April 2015, with an intention to increase charges by a similar amount in April 2016 (subject to no further reduction in HRS funding). Furthermore, it is proposed that tenants in receipt of housing benefit be required to meet the cost of the increase in the Housing Related Support Charge (only) themselves - by no corresponding increase being made to their Housing Related Support Credit.

Thirdly, it is proposed that the current Housing Related Support Credit received by tenants in receipt of housing benefit to meet their Housing Related Support Charge be reduced by 8% from April 2015, with an intention to reduce the Credit by a similar amount in April 2016 (subject to no further reduction in HRS funding).

Effect of these changes on tenants and the HRA

The effect on all tenants in sheltered housing and area schemes, and private Careline clients, of all the above proposals are summarised in the following table:

Sheltered Tenants (Scheme Management & Careline):					
	(£)	Increase (£)	Increase (%)	Increase (£)	Increase (%)
Not on HB	£12.15 p/w	£0.71 p/w	5.80%	£0.71 p/w	5.50%
On HB	Nil	£1.27 p/w	N/A	£1.27 p/w	100.00%
Area Tenants (Scheme Management & Careline):					
Not on HB	£5.54 p/w	£0.39 p/w	7.00%	£0.39 p/w	6.60%
On HB	Nil	£0.52 p/w	N/A	£0.52 p/w	100.00%
Private Careline Users	£95.30 p/a	£13 p/a	13.60%	£13 p/a	12.00%
New Annual Cost		£108.30 p/a		£121.30 p/a	
(*) – Subject to no further reduction in HRS funding in 2016/17					

As a result of spreading the required increases in charges over two years, the HRA will need to subsidise the Careline Service and Scheme Management Service by around £58,000 during 2015/16.

Potential for further HRS funding reductions by Essex County Council

All of the above proposals have been formulated to enable the Careline Service to break-even, and the loss in HRS funding for the Scheme Management Service to be fully recovered, from April 2016 – based on the current reduction in HRS funding by ECC.

However, it is quite possible that further reductions in HRS funding will be made by ECC in April 2016. If this is the case, a further review of charges will need to be made for the HRA Budget in 2016/17, which is likely to result in higher charges from April 2016 than those set out above.

Moreover, it has been noted that ECC may be seeking to reduce its County-wide HRS Budget by more than the currently-proposed £2 million per annum from April 2015, which may have a further effect on this Council's HRS funding. However, no details have been received on such a possibility at the time of preparing this HRA Budget and have therefore not been incorporated.

**HOUSING DIRECTORATE
HOUSING REVENUE ACCOUNT SUMMARY**

2013/14		2014/15			2015/16
<i>Actual</i>	<i>Original</i>	<i>Probable</i>			<i>Original</i>
<i>£000's</i>	<i>Estimate</i>	<i>Outturn</i>			<i>Estimate</i>
<i>£000's</i>	<i>£000's</i>	<i>£000's</i>			<i>£000's</i>
				EXPENDITURE	
4,768	4,468	4,561		Supervision & Management General	4,616
3,691	3,844	3,693		Supervision & Management Special	3,870
542	521	525		Rents, Rates Taxes & Insurances	526
5,200	5,000	5,000		Contribution to Repairs Fund	5,000
0	570	27		Improvements / Service Enhancements	50
14,201	14,403	13,806		MANAGEMENT & MAINTENANCE	14,062
13,110	13,231	12,480		Depreciation	13,539
50	52	74		Treasury Management Expenses	83
16	250	129		Provision for Bad/Doubtful Debts	100
27,377	27,936	26,489			27,784
(30,885)	(31,765)	(31,631)		INCOME	
(870)	(858)	(843)		Gross Rent of Dwellings	(32,177)
(1,980)	(1,574)	(1,614)		Non Dwellings Rent	(859)
(336)	(383)	(343)		Charges for Services & Facilities	(1,587)
				Contribution from General Fund	(356)
(34,071)	(34,580)	(34,431)			(34,979)
(6,694)	(6,644)	(7,942)		NET COST OF SERVICES	(7,195)

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2013/14		2014/15			2015/16
Actual	Original	Probable			Original
£000's	Estimate	Outturn			Estimate
	£000's	£000's			£000's
(6,694)	(6,644)	(7,942)	NET COST OF SERVICES		(7,195)
(375)	(402)	(395)	Interest on Receipts and Balances		(422)
5,526	5,532	5,529	Interest Payable on Loans		5,566
(5,349)	(6,186)	(4,958)	Transfer from MRR		(6,014)
(33)	(29)	(34)	Reversal of DLO depreciation		(34)
963	973	794	Pensions Interest Payable/Return on Assets		794
<u>(5,962)</u>	<u>(6,756)</u>	<u>(7,006)</u>	NET OPERATING INCOME		<u>(7,305)</u>
			APPROPRIATIONS		
4,200	5,700	5,200	Capital Exp. Charged to Revenue		4,900
(865)	(945)	(722)	FRS 17 Adjustment		(722)
3,180	3,180	3,180	Transfer to Self Financing Reserve		3,180
(84)	0	0	Transfer to Insurance Fund		0
(58)	(442)	360	Transfer to Enhancement Fund		(105)
(4)	0	0	Leave Accruals		0
<u>6,369</u>	<u>7,493</u>	<u>8,018</u>			<u>7,253</u>
<u>407</u>	<u>736</u>	<u>1,012</u>	(SURPLUS)/DEFICIT FOR YEAR		<u>(52)</u>
3,375	3,482	2,968	BALANCE BROUGHT FORWARD		1,956
407	736	1,012	(SURPLUS)/DEFICIT FOR YEAR		(52)
<u>2,968</u>	<u>2,746</u>	<u>1,956</u>	BALANCE CARRIED FORWARD		<u>2,008</u>