BARNSLEY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan

Joint Report of the Executive Director, Finance and the Executive Director of Development, Environment and Culture

HOUSING REVENUE ACCOUNT - DRAFT BUDGET 2014/2015

1. Purpose of Report

1.1 This report provides a summary of:-

(i) The Housing Revenue Account draft budget for 2014/2015;
(ii) 2014/2015 Development Proposals;
(iii) 2014/2015 Savings Proposals;
(iv) 30 Year HRA Business Plan;
(v) Use of the Working Balance; and
(vi) The draft timetable to increase the rent.

2. Recommendation

2.1 It is recommended:-

(i) That the Housing Revenue Account Draft Budget for 2014/2015 be approved, with any final amendments / additions being delegated to the Cabinet Spokesperson for Development, Environment & Culture;
(ii) That the Development Proposals for 2014/2015 as set out at Appendix C be agreed;
(iii) That the Saving Proposals for 2014/2015 as set out at Appendix D & Sections 4.3 to 4.9 be agreed;
(iv) That individual dwelling rents be increased in line with the requirements of the Government's Rent Reform policy as set out in the December 2000 policy statement "Quality and Choice A Decent Home for All" as updated by the guidance in the Annex A to the ODPM letter to Chief Finance Officers of 7 November 2005;
(v) That the rent increases be implemented with effect from 31st March 2014, collectable on the 7th April 2014;
(vi) That the 2014/15 Berneslai Homes Management Fee of £13.775M is approved with any final amendments / additions being delegated to the Assistant Director, Development in consultation with the Cabinet Spokesperson for Development, Environment and Culture;
(vii) That the use of Berneslai Homes Ltd retained surplus as outlined in section 3.31 to 3.32 be approved; and
(viii) That the earmarking of HRA Working Balance as outlined in section 3.23 and Appendix E be approved.

3. Introduction

3.0 During 2013/14 excellent progress continued to be made against the Company's key objectives and Berneslai Homes have maintained their excellent performance during a year of economic uncertainty and challenges.

To date externally benchmarked customer satisfaction surveys are as follows:

	2005	2013
Overall tenant satisfaction with Berneslai Homes	71%	90%
Repairs satisfaction	62%	89%
Neighbourhood as a place to live	78%	90%
Quality of the home	74%	86%
Value for money	61%	81%

3.1 The Board and Executive are mindful that Berneslai Homes manage the HRA on behalf of the stakeholder and see collaborative working as an integral part of what makes the relationship successful. It also ensures that tenant priorities are respected and the ring fence of the HRA remains intact. It is, therefore, important that Berneslai Homes demonstrates how they are aligned to the Council's Corporate Priorities as a named member of One Barnsley.

Growing the Economy

3.2 Berneslai Homes currently employ 497 (463 FTE) staff of which 80% live and spend in the Barnsley area. In 2012 the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University was commissioned by the Northern Housing Consortium to assess the impact of Northern Housing Organisations on the economy. Using the tool developed by CRESR Berneslai Homes has estimated the impact both directly and indirectly of Council Housing spend in Barnsley on the Northern economy to be a total of £96.372M and equivalent to 946 jobs

3.3 As well as its core business, Berneslai Homes has focussed on its contribution to worklessness and access to employment within the borough. As a signature to the One Barnsley Apprenticeship pledge Berneslai Homes meet the target of 2.5% with 3.6% of the workforce being apprentices. In a joint venture with Barnsley Community Build, the Community Refurbishment Scheme employs and provides work experience to 47 trainees, all working towards an NVQ Level 2 in Building Construction and 80% go on to full time employment or training. Berneslai Homes already operate a successful 'taster' work experience programme and discussions are taking place with Job Centre Plus to consider establishing a sector based academy.

3.4 The Family Intervention Service has a national reputation for delivering cross tenure support to families with multiple problems and in 2013 BMBC Children's Services commissioned Berneslai Homes to deliver the Troubled Families Service across Barnsley. This is a Payment By Results (PBR) scheme, and of the 117 outcomes claimed by the Council in 2012/13, 85 were delivered by FIS with 23 resulting in work/ wiseability outcomes . 2013/14 is achieving similar results and for the £200,000 per annum investment in FIS by the Council payment by results will have achieved approximately £500,000 to date.

3.5 Berneslai Homes is pro-actively involved in the economic renewal of Goldthorpe and the wider Dearne area. The company's Property Management Service provides a landlord management service to private rented landlords in the area and both this and Housing Management work closely on targeted enforcement activities. A total of 107 properties have been demolished in the area of which 19 were council properties and the site is now awaiting redevelopment. The HRA contributed £240K to this process and has also committed £220K to bring a number of properties up to the Barnsley Homes Standard as part of the Council's intervention in bringing empty homes back into use.

3.6 A further programme of HRA new build is committed and 55 new homes will be on site from 2014, creating both jobs and affordable homes in the borough. To date Berneslai Homes have funded the acquisition of 18 properties from company reserves, many of which have been empty for over 6 months and this has allowed the Council to access government grant to reinvest.

Improving People's Potential and Achievement

3.7 Berneslai Homes' focus in 2013/14 has been on Digital and Financial Inclusion. In 2012 the Connecting Communities project was launched, since then a successful bid for free mobile broadband has been made and links to existing projects has forged a partnership with 'Get it Together Barnsley' accessing their volunteer tutor network. A total of 91 sessions have been held at community centres and sheltered housing schemes. These sessions have addressed the barriers of motivation, lack of skills, confidence and cost that tenants face to get on line. A total of 686 people have attended and sessions are now targeting job seekers referred from Job Centre Plus. In 2011 only 42% of tenants had access to the internet, this has now increased to 49%.

3.8 Welfare Reform changes have impacted on many people in Barnsley and the focus for Berneslai Homes has been to 'help people help themselves'. Berneslai Homes has always had an excellent rent collection rate (99%) and one aspect of this is about providing money management advice and support to tenants experiencing debt problems. Berneslai Homes fund an advice worker at the Citizens Advice Bureau and in 2012/13 they dealt with 264 cases, with a total of £334K of debt and identified £98K benefit gain. In 2013 a Financial Inclusion team (2 members of staff) was established to work with tenants affected by the under occupancy charge and to prepare for the introduction of Universal Credit and direct payment of benefits to tenants. To date the newly formed Financial Inclusion team has offered support and advice to 335 families.

3.9 Berneslai Homes are a named signature to the Anti-Poverty Pledge which seeks to support residents resilience to poverty by promoting employment (see sections 3.2 and 3.3) fostering independence by supporting residents to manage their income more effectively (see section 3.8) and protecting the vulnerable. Berneslai Homes' approach to this last area is embodied in its vulnerability strategy 'Something Doesn't Look Right', its partnership working with both Adult and Child Safeguarding Boards and the Community Safety Partnership. The HRA provides £306,000 funding to the successful cross sector community safety partnership plus low level ASB work through its housing management officers, as well as its Family Intervention Service.

Changing the Relationship between the Council and the Community

3.10 Berneslai Homes has a nationally recognised tenant and leaseholder engagement model which provides a range of options for engagement, consultation, involvement in decision making, scrutiny of service outcomes and service re-modelling. These are known as the Service Excellent Assessment programme and Challenge Berneslai and are run in partnership with the Barnsley Federation of Tenants and Residents.

3.11 Following the withdrawal of £400,000 Supporting People funding, Berneslai Homes remodelled its sheltered housing service, and this now reflects a focus on independence in the home. The new service includes a warden who is responsible for building safety and security and the tenants well-being, with an emphasis on residents having a 'good neighbour' role. Any resident with personal support needs can apply for provision through a personalised budget.

3.12 The year saw the conclusion of a second review of HRA Community Buildings managed by Berneslai Homes since 2007. The latest review has concluded in one centre being modernised to become the headquarters of the Tenants Federation and becoming a thriving community asset and four centre's closed, one for disposal, two for conversion to residential properties and one for demolition to create a residential development site.

3.13 One of Berneslai Homes' objectives is to be a successful well managed company and proper and strong governance is central to the on-going success of the relationship between the Council and Berneslai Homes. Each year an annual governance self-assessment is undertaken which is substantiated by Internal Audit and no areas of concern have been identified.

3.14 Value for money is an integral part of this and the focus is high performance/low cost. Since 2005/06 Berneslai Homes have generated £38.6m efficiencies and attracted £30.2m of external funding for investment into the stock and services. We are aware of base line costs and regularly review our structures, since 2007 228 posts have been deleted, a 31% reduction with only a corresponding 10% reduction in stock numbers. The management fee itself is 25% lower in real terms after allowing for inflation. Berneslai Homes has a number of significant service level agreements with the Council, such as Barnsley Connects, Neighbourhood Pride, Fleet Services and ICT. In total Berneslai Homes commission Services to the value of £2.7M from the Management fee, £800,000 from Construction Services trading account and £1.4 M from the HRA.

3.15 In 2013 Berneslai Homes won the NFA Championing Digital Inclusion award, were shortlisted for Partnership of the Year for its work at Thurnscoe with the Council and Keepmoat and were placed fourth in 24 Housing's top 50 landlords list.

Draft Budget

3.16 The cost of continuing existing policies is shown at Line 20 in Appendix A. There is an increased budget requirement of £6,707,260 (£19,649,130 less £12,941,870) compared to the 2013/14 Budget.

3.17 A summary of the major base budget variations is attached at Appendix B. Explanations for the main variations are given below:-

		£	
	Additional Costs		
(i)	Repairs and Maintenance - inflationary uplift at 3.2% together with continuation of steering group additional funding	+695,310	
(ii)	Council Tax on Unoccupied Properties change in Council policy on charging	+175,000	
(iii)	Increase in contribution to the Major Repairs Reserve in line with the Self Financing Settlement	+816,890	
(iv)	Impairment of non-dwelling assets	+1,000,000	
(v)	Increase in Revenue Contribution to Capital in line with the draft 2014/15 Council Housing Capital Programme	+5,004,450	
(vi)	Other (Net)	+231,340	
			+7,922,990
	Offset by Reduced Costs		
(i)	Reduction in interest charge due to lower interest rates and debt	-189,060	
(ii)	Reduction in premiums on premature repayment of debt	-1,026,670	**-1,215,730**
	2014/15 Base Budget Increase		**+6,707,260**

3.18 The draft budget is based on an average housing stock of 18,858 dwellings compared to 18,887 in 2013/14.

Available HRA Working Balances

3.19 There is currently a projected balance of £1.143M available for general support to the 30 year self financing business plan together with £15.842M earmarked for revenue contributions to the capital programme. This gives a total available of £16.986M.

3.20 Of this sum £15.647M is required to support the 2014/15 budget (Appendix A, line 21)

3.21 It is proposed to earmark the balance of £1.339M (£16.986m less £15.647M) for Welfare Reform taking the total earmarked sum to mitigate against this risk to £3.339M. The financial impact of Welfare Reform still presents major risks to the business plan. The financial provisions made to date assume a smooth roll out of the reforms. Although the Spare Room Subsidy was implemented on time & is being managed effectively & within projections, it is the implementation of Universal Credit (UC) which brings the greatest uncertainties. Experience of UC in the 'Demonstrator' projects has highlighted the volatile impact on rent arrears and the disproportionate amount of staff time required to deal with it. These problems are compounded by the fact that the Government IT systems are not yet working properly & implementation is being delayed (the scheduled date for Barnsley is still not known) and many operational issues have still not been resolved (e.g. significant delays in obtaining 'switchbacks' to payment to landlords where arrears hit threshold levels).

Development Proposals

3.22 Appendix A also incorporates 2014/15 Development and Savings Proposals which taken together with the cost of continuing existing policies and utilisation of working balance result in a rent increase requirement of £4.66 (line 25).

3.23 Development proposals totalling £0.320M in 2014/15 and £0.470M in future years are shown in Appendix C.

Savings Proposals

3.24 Savings proposals totalling £0.189M have also been included. The savings proposals are summarised in Appendix D.

Rent Reform

3.25 The Government's original aim was that Registered Social Landlord (RSL) rents and Local Authority rents should achieve convergence by April 2012 at a 'formula rent'. The Government intended that by the end of the implementation period for a similar property in a similar location the rent should be the same regardless of whether the landlord is an RSL or a Local Authority.

3.26 In line with Government policy, Barnsley MBC commenced implementation of rent restructuring at individual property level in April 2003.

3.27 Following a national review of the rent restructuring regime Local Authorities moved to using exactly the same formula as RSLs for calculating rents from 2006/07 as follows:-

70% of the average rent for the RSL sector
multiplied by relative county earnings
multiplied by bedroom weight

plus

30% of the average rent for the RSL sector
multiplied by relative property value

The formula is updated for inflation (RPI plus 0.5%) each year. For 2014/15 the RPI figure (September 2013) is 3.2%.

3.28 In 2012 the Government determined that the Council could afford to support £291M of debt under the self financing regime. This debt settlement was based upon rents increasing in line with the Government's rent reform policy. This means that, after updating for inflation (Sept 2013 RPI plus 0.5%); rents for individual dwellings will now move one of 2 remaining annual steps towards the formula rent. This is then constrained by the Government's recommendation that the annual increase for any tenant is £2 or less on top of the normal increase for inflation. This leads to an average rent increase (from the current average rent of £74 over 48 weeks) of £4.66 compared to £4.06 in 2013/14.

3.29 The Government's latest proposals on rent policy (Rents for Social Housing from 2015-16 Consultation, published October 2013) mean that 2014/15 will be the last year that rents for existing tenants will move in annual steps towards the target rent. From April 2015 rents for the vast majority of existing tenants will be uplifted only by CPI (Consumer Price Index) plus 1% each year. However, empty properties will go straight to target rent on relet.

Management Fee

3.30 The proposed Berneslai Homes Management Fee for 2014/15 is £13.775M compared to the original 2013/14 budget of £13.647M as detailed below. Independent externally verified benchmarking undertaken by Housemark clearly demonstrates that Berneslai Homes has maintained its excellent position as a low cost, high performing ALMO. With the lowest overheads of any participating ALMO and upper quartile tenant satisfaction the company continues to demonstrate excellent value for money.

	£
Original Management Fee 2013/14	**13,646,880**
Approved variations	
Full Year Effect of 2013/14 Developments	-33,370
Review of Wardens Service	-391,250
Base Variations	
Salaries (1% pay award) and pension contributions	229,860
Impact of Welfare Reform (court fees and cash collection)	90,400
Energy Costs- District Heating	48,480
Other	-75,200
Draft Management Fee 2014/15 (excluding 14/15 Development Proposals)	**13,515,800**
Development Proposals (per Appendix C)	320,180
Savings Proposals (per Appendix D)	-61,440
Proposed Management Fee 2014/15	**13,774,540**

3.31 As set out in Appendix C it is proposed to use £0.123M of Berneslai Homes Retained reserves to fund time limited development proposals. In addition the one off costs of the senior management restructuring (Appendix D (ix) will be met from Company reserves.

3.32 The draft Berneslai Homes budget includes for an estimated 3% increase in pension contributions following the triennial review of the pension fund. However, if the required increase is greater than 3% this additional cost will be met by the Company's retained reserve in 2014/15.

3.33 Previously approved priorities for investing the Company's retained surplus also include the following:-

- Service impacts of Welfare Reform,
- £4M for the Acquisition Programme to increase the supply of affordable housing in the borough and support the Council's empty homes strategy.
- Financial risk, including risks around the PRIP arrangement,
- Further modernisation of the service which may be around looking at digital inclusion, e-access and aligning to the Council's Customer Services Organisation Project,
- Support to the 2013/14 Berneslai Homes budget (time limited Development Proposals),

Approval for any investment proposals funded from the surplus will be in consultation with, and the agreement of the Assistant Director, Development.

4. Proposal and Justification

4.1 It is proposed that individual dwelling rents be increased in line with the Government's Rent Reform policy and that consideration be given to the Development Proposals (Section 4.2 and Appendix C) and Savings Proposals (Sections 4.3 to 4.9 and Appendix D). In addition it is proposed that the use of Berneslai Homes Ltd retained surplus as set out in sections 3.31 to 3.32 be approved and that the HRA earmarked working balances as set out in Appendix E be approved.

Development Proposals

4.2 A number of development proposals are detailed in Appendix C and these are considered to be key to meeting the priorities for the Landlord Service and aligning with the Council's Corporate Objectives.

Savings Proposals

4.3 Savings and income generation proposals have been identified as part of our strategy to maximise Value for Money and to release resources for reinvestment in priority areas these are summarised at Appendix D and detailed below.

4.4 In respect of service charges those for communal facilities (excluding Sheltered Schemes) and door entry/CCTV are proposed to increase for inflation at 3.2%. With charges for garages and garage sites increasing in line with the average rent increase.

4.5 It is proposed that the communal facilities charge for those in sheltered schemes should increase from £8.13 to £8.38 per week over 48 weeks in line with projected actual costs of the services provided.

4.6 Charges for District Heating (Heat metered schemes) have increased by only 6% since 2011 compared to significant increases in most fuel costs, including a 28% increase for gas. Consequently, it is proposed to increase the charge for district heating on heat metered schemes to 11p per KWHR for 2014/15. This will be the first step in returning the charge to an actual cost basis (currently around 13p per KWHR) . Implementation of the policy of moving all schemes on to heat meters is planned for completion in summer 2014. However, there will remain a small number of properties sold under the right to buy, where the owner has chosen not to have a heat meter fitted. It is proposed that the standard weekly heating charge for those without a heat meter be increased in line with the percentage increase in charge for heat meters.

4.7 There are currently around 130 tenants on the Furnished Tenancy scheme. A review of current charges on the scheme has been undertaken. The proposed charges based upon recovery of actual costs range from £9.77 to £20.24 per week (over 48 weeks) dependent upon the number of bedrooms and the furnishings included (see Appendix D (viii)). The revised charges will lead to an increase of £0.16p per week (over 48 weeks) for all packages.

4.8 It is proposed that water charges in those sheltered schemes where tenants do not pay Yorkshire Water direct should increase in line with the actual costs of water consumed. The revised weekly charges based upon pooling the costs over all relevant schemes as follows:-

Property	**Current Charge £**	**Proposed Charge £**
Bedsit	2.10	2.66
1 Bed	2.59	3.28
2 Bed	3.07	3.89
3 Bed	3.64	4.61

4.9 There are 24 New build properties with shared facilities for which service charges are levied. It is proposed to increase the charges in line with estimated actual costs as detailed at Appendix D (vii).

5. Consideration of Alternative Approaches

5.1 The package of budget proposals set out in the HRA Budget report and the Council Housing Capital Programme report include the reinvestment of savings on the capital programme (£8M) and inclusion in the base budget of limited development proposals. An alternative approach would be to utilise resources to repay debt. Repaying debt would reduce the risk to the business plan of future increases in interest charges. However, reinvestment in the areas proposed will support the Council's corporate objectives and also through the new build and acquisition programmes produce income generating assets which contribute to the plan in future years. Further the business plan continues to remain viable as measured by the ability to repay the debt within the 30 year planning period (see section 7). Hence a strategy of repayment of debt is not proposed at this stage.

6. Delivering the Community Strategy

6.1 Berneslai Homes and the Housing Revenue Account contribution to Council objectives is set out in section 3.2 to 3.15.

7. Long Term Sustainability of the Proposal

7.1 The proposals in this report will leave the Council and Berneslai Homes well placed to move into the uncertain future arising from Welfare Reform. The proposed level of revenue contribution to the Council Housing capital programme will enable the Barnsley Homes standard to be maintained over the approved 5 year programme.

7.2 With the new freedoms and flexibilities of self financing comes the responsibility to plan over the long term. The proposed 2014/15 budget is set within the context of the HRA 30 year business plan. An update on the Business Plan is given at Appendix G this shows that the plan remains viable as measured by the ability to repay the debt within the 30 year planning period.

8. Impact on Local People

8.1 The effective management of the HRA helps to consistently drive forward service improvements for the benefit of both council tenants and the wider community.

9. Compatibility with European Convention on Human Rights

9.1 There are no issues around contraventions of human rights arising from this report.

10. Promoting Equality and Diversity and Social Inclusion

10.1 All new policies, procedures and developments are subject to individual equality impact analyses.

11. Reduction of Crime and Disorder

11.1 In investigating the options set out in this report, the Council's duties under Section 17 of the Crime and Disorder Act 1998 have been considered.

12. Conservation of Biodiversity

12.1 There are no implications arising directly from this report

13. Risk Management Issues, including Health and Safety

13.1 In preparing the draft budget for 2014/15 a number of risks have been identified which will require attention during the financial year. Risks have been identified where they would have a significant impact on the ability of the Council and Berneslai Homes to achieve the stated objectives and to ensure a balanced budget at the year-end.

(1) Repairs and Maintenance

13.1.1 The decent homes programme completed in December 2010 when 13,273 dwellings had benefited from whole house improvement and the stock achieved 100% decency. From January 2011 we commenced the Barnsley Home Standard Programme. This is similar in many ways to the Decent Homes programme and tackles homes falling out of the standard over a five year planning period, so that going forward the stock continues to have 100% decency. In the 2013/14 financial year 939 properties are to be improved under the programme.

13.1.2 Performance in responsive repairs and planned maintenance continues to be at or near upper quartile. Stretching new targets were set in April 2010 as part of the new Property Repairs and Improvement Partnership and these are updated annually. High performance and a good quality housing stock should reduce the risk on the repairs budgets and over recent years we have seen this firmly established, with both reduced demand and lower job costs. This has enabled the responsive element of the budget to be reduced and to be targeted at more planned revenue works and to give support to the capital programme.

13.1.3 Risks around the responsive repairs budget however remain and are closely monitored. In particular during the 2013/14 financial year we have seen a large increase in the number of void properties. This has been mostly caused by reductions in housing and other welfare benefits and tenants downsizing as a consequence.

Other risks can be summarised as:

- The Barnsley Homes standard, whilst tackling the property, has had little impact on the environment around properties.
- Regulatory pressure to improve safety in the home and protect workers.
- Adverse weather.
- The large increases in energy costs meaning that tenants heat their homes less and a consequential rise in condensation and surface mould within properties.

In the last year we have continued with higher levels of planned works funded from the revenue account against the level of responsive repair. We intend to maintain this strategy as long as budgets permit. The strategy is linked closely to maintaining emergency and urgent repairs at as low a level as possible. It also allows partner contractors to effectively plan workloads and obtain best value for the service.

(2) Income

13.1.4 The first 6 months of 2013/14 is seeing an increase in the number of properties becoming void. Some of this increase will be attributable to families moving because of the Spare room subsidy and general pressures on household budgets. Based on current trends, it is projected that there will be 1,850 vacancies by the year end, an increase of approximately 350 on 2012/13. However, even though the number of voids is increasing they are being 'turned around' in even faster timescales thus mitigating rent loss. Void turnaround was almost 60 days in 2002 & now stands at marginally over 20 days. It is too early to say whether this trend of increased void numbers will continue throughout 2014/15. All age restricted properties have been reviewed with the aim of increasing supply of smaller properties. The above is having a direct impact on the workloads of a number of Berneslai Homes teams (Lettings, Rents, Housing Management Officers and Construction Partners). There are also a number of indirect effects for example an extra £100,000 (20%) is being spent in 2013/14 on void gardens from the responsive Grounds Maintenance budget.

13.1.5 Rent collection is, as predicted, being adversely affected by the commencement of Welfare Reform, rising utility bills and the Government's austerity measures. At the end October 2013, rent collected (currently 98.27% as opposed to 99.05% at the end of 2013/14) is within the performance target (97%). Rent Arrears stand at £1.038m against a final position of £702,070 for 2012/13. This is within the budgetary provision. We remain proactive with the arrears escalation process with 50% more Notices of Seeking Possession being served in the first six months of this financial year. Our Financial Inclusion Officers & Rents Staff are targeting vulnerable households with advice & assistance. As a result, eviction trends remain stable. Discretionary Housing Payments are going some way to mitigate the impact of the under occupancy charge . Former Tenants Arrears are inevitably increasing as a result of allowing tenants to downsize with arrears outstanding due to the Under occupancy charge (33 cases at £11,000) & 83 tenancies terminating to move into private rented or lodgings (£26,000). The impact of the 'Benefit Cap' introduced as part of Welfare Reform is currently being effectively managed. Of the 21 council tenants affected, 12 are managing their accounts; 6 are at the early arrears stage & 3 with serious rent arrears (going through the court process).

13.1.6 Welfare Reform continues to be a major risk to the 30 year Business Plan, particularly the roll out of Universal Credit which will see many working age claimants receive their rent included as part of their monthly benefit rather than paid directly to the landlord in the form of Housing Benefit. Under the HRA Self Financing arrangements, around £67m rent income is collected each year. The consequence of Welfare Reform is that an additional £27m included within the £67m has to be collected directly from around 7,750 tenants who have not previously had to pay rent themselves. Targetted communications with tenants directly affected are taking place. It must be noted however that the Government have delayed the roll out of Universal Credit & there is still some uncertainty about when it will be implemented in Barnsley.

13.1.7 The annual provision for Bad Debts within the Business Plan has been increased because of the risks surrounding Welfare Reform. The budget has been increased from £300,000 in 2012/13 to £1.1M in 2013/14 & 2014/15 and £2.1M in later years.

(3) Treasury Management

13.1.8 With the introduction of self financing the HRA exposure to treasury management risk has significantly increased as the protection from increased interest rates provided by the previous Housing subsidy system has ceased. The Council's approach to managing treasury management risk is set out in the Treasury Management Strategy agreed annually as part of the budget process. The types of risk which are most relevant to the HRA are interest rate risk and refinancing risk.

13.1.9 Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances. Working balance of £2.329M is earmarked to mitigate against this risk.

13.1.10 Refinancing risk is the risk that maturing borrowings cannot be refinanced on terms that reflect the provisions made by the Council. The Prudential indicators agreed within the Treasury Management Strategy place limits on the maturity structure of borrowing to limit the refinancing risk.

(4) Right to Buy

13.1.11 The level of sales through the 'Right to Buy' is greater following Government changes which have made the scheme more attractive through increases to the amount of discount which tenants receive. The actual sales for 2012/13 were 91 compared to 40 sales in 2011/12. The estimate for 2013/14 is 100 and 120 for 2014/15. The first call against the receipt from each **additional** sale is to meet the debt for that property taken on under the self financing regime. Yet increased sales through 'Right to Buy' still places a burden on the 30 year plan due to the loss of economies of scale, difficulties in downsizing to match new lower income levels and potential restructuring costs. Maintaining stock levels by taking advantage of acquisition and new build opportunities will mitigate against this risk.

13.1.12 The Council Housing Capital Programme 2014/19 already includes provision for 75 new build properties (of which at least 55 are to be on site in 2014) and approval is now being sought for an additional 35 new build dwellings at a cost of £4.2M. Approval is also being sought for a £1M HRA acquisitions budget which together with the £4M funded by Berneslai Homes retained reserves is anticipated to deliver 92 homes.

(5) Impairments

13.1.13 Prior to Self Financing impairment charges (see glossary at section 16) were made for all HRA assets but then reversed out so they did not impact on rent levels. Under Self Financing, the Government has moved to impairment being a true charge to the HRA (i.e. the charges are not reversed out and therefore hit the 'bottom line'). However, for a 5 year transitional period they are allowing the previous arrangements to continue for HRA dwellings. This transitional allowance does not apply to HRA non dwelling assets (e.g. shops and community centres).

13.1.14 Impairment charges present a challenge in setting the budget as they are difficult to predict and can vary significantly from year to year. The impairment charge in 2012/13 was £2.4M. The total value of HRA non dwelling assets is around £18M. The draft base budget for 2014/15 includes £1M with a similar sum proposed for the 2013/14 revised budget together with £1.6M earmarked in the HRA working balance to mitigate against the potential for changes in the charge in both years.

13.1.15 CIPFA is in discussion with CLG over proposals to revert to the position prior to self- financing where impairments did not impact on rent levels. These talks have been on-going for around a year.

14. Financial Implications

14.1 In total these proposals will leave an estimated closing Working Balance for 2014/15 of £8.477M. After deducting earmarked items as set out in Appendix E this would be sufficient to maintain the General Contingency at the required level of £1 million.

14.2 A summary of the Working Balance is shown at Appendix E.

15. Employee Implications

15.1 The employee implications of development proposals will be addressed as the detailed proposals are developed and approved.

16. Glossary

16.1 **CIPFA** – Charted Institute of Public Finance and Accountancy
CLG – Department for Communities and Local Government
Delivery Plan - This document sets out Berneslai Homes' priorities, planned outputs and targets for the coming year and is agreed with the Council.
HRA – Housing Revenue Account
Working Balance - The accumulated surplus (excess of income over expenditure) on the Housing Revenue Account
Earmarked Working Balance - Working Balance which is set aside to meet planned future expenditure
Unallocated Working Balance - Working balance which is not set aside and is potentially available to fund priority additional expenditure items
PRIP - Property Repairs and Improvement Partnership
MRR - Depreciation Charges to the HRA are transferred to the Major Repairs Reserve pending their use to fund capital schemes
RSL - Registered Social Landlord, for example a housing association
Impairment Charges - these are made to reflect reductions in the value of assets due to changes in the physical condition of the property over and above normal wear and tear and reductions due to changes in market

conditions. These charges can first be made against the revaluation reserve for the asset (if one exists). Charges in excess of the revaluation reserve have to be made to the income and expenditure statement.

17. List of Appendices

17.1 Appendix A - Housing Revenue Account Draft Budget 2014/15
Appendix B - Major Variations
Appendix C - Development Proposals
Appendix D - Savings Proposals
Appendix E - Working Balance
Appendix F - Rent Increase Timetable
Appendix G - 30 Year Business Plan

18. Background Papers

18.1 DETR Guide to Social Rent Reform 2001
ODPM letter to Chief Finance Officers of 7 November 2005
CLG letter to Chief Financial Officers of 21 November 2011
CLG Consultation Rents for Social Housing from 2015-16 October 2013
(Available for inspection at Gateway Plaza, Off Sackville Street)

18.2 Budget working papers containing exempt information - not available for inspection.

Office Contact: Executive Director, Finance **Telephone No: 01226 773101**
Executive Director, Development, Environment & Culture **01226 772001**

Date: December 2013

Financial Implications/Consultations ______________________________

ANNEX

HOUSING REVENUE ACCOUNT – DRAFT BUDGET 2014 / 2015

Consultations

(a) **Financial Implications**

Discussions have taken place with the Executive Director, Finance

(b) **Employee Implications**

These are outlined in Section 15

(c) **Legal Implications**

None arising directly

(d) **Policy Implications**

These are detailed within the report.

(e) **ICT Implications**

None arising directly

(f) **Local Members**

No local member consultations have taken place.

(g) **Health and Safety Considerations**

None arising.

(h) **Property Implications**

None arising.

(i) **Implications for Other Services**

These are detailed within the report.

(j) **Implications for Service Users**

The normal consultative process will take place to give statutory notice of rental increases.

(k) **Communications Implications**

A joint press release will be issued.

APPENDIX A

Housing Revenue Account - Draft Budget 2014/15

		2013/14 Original £	2013/14 Projected Outturn £	2014/15 Draft £	2014/15 Rent Equiv (48wks) p
	INCOME				
1	Dwellings Rent	66,706,860	66,706,860	66,580,030	7,506
2	Non Dwellings Rents	397,410	397,410	368,000	41
3	Heating Charges	679,590	679,590	647,940	73
4	Other Charges for Services and Facilities	561,890	561,890	541,170	61
5	Shared Amenities	389,820	389,820	397,720	45
6	Contributions towards Expenditure	598,500	598,500	677,890	76
		69,334,070	69,334,070	69,212,750	7,803
	EXPENDITURE				
7	Repairs and Maintenance (including fees)	17,083,240	17,083,240	17,861,170	2,014
8	Supervision,Management & Special Services	15,750,250	15,750,250	15,787,520	1,780
9	Rents, Rates, Taxes and Other Charges	118,850	118,850	297,890	34
10	Increased Provision for Doubtful Debts	1,100,000	1,100,000	1,100,000	124
11	Depreciation & Impairment of Fixed Assets	14,405,260	14,405,260	13,027,970	1,469
12	Debt Management Costs	91,800	91,800	92,710	10
		48,549,400	48,549,400	48,167,260	5,430
13	**Net Cost of Services**	**-20,784,670**	**-20,784,670**	**-21,045,490**	**-2,373**
14	Interest Payable and similar charges	13,160,000	13,160,000	12,970,940	1,462
15	Amortised Premiums and Discounts	1,104,240	1,104,240	77,570	9
16	Investment Income	-177,000	-177,000	-191,820	-22
17	**Net Operating Expenditure**	**-6,697,430**	**-6,697,430**	**-8,188,800**	**-923**
	Appropriations				
18	Transfer to/from Major Repairs Reserve	3,862,990	3,862,990	7,057,170	796
19	Revenue Contribution to Capital	15,776,310	15,776,310	20,780,760	2,343
20	**Base Budget**	**12,941,870**	**12,941,870**	**19,649,130**	**2,215**
21	Use of (-) / Contribution to Working Balance	-12,941,870	-12,941,870	-15,646,640	-1,764
22	2014/15 Development Proposals	0		320,180	36
23	2014/15 Savings Proposals	0		-189,250	-21
24	**Surplus (-) /Deficit to be Financed**	**0**	**0**	**4,133,420**	**466**
25	**Funded by RENT INCREASE**			**4,133,420**	**466**

Product of 1p rent @ 48 weeks = £8,870

Housing Revenue Account - Draft Budget 2014/15

	ITEM	£	£
1	**2013/14 BUDGET**		12,941,870
2	**ADD VARIATIONS**		
3	Repairs & Maintenance - inflationary uplift of 3.2% plus continuation of additional steering group environmental budgets	695,310	
4	Council Tax on Unoccupied Properties change in Council policy on charging	175,000	
5	Reduction in Berneslai Homes Management Fee due largely to savings from the review of the Wardens Service offset by increased pension contributions	-115,410	
6	Reduction in rent income due to increased void numbers	126,830	
7	Increased Back funding pension costs	157,620	
8	Capital Financing Charges		
a	Reduction in interest charges due to lower interest rates and debt	-189,060	
b	Reduction in premiums on premature repayment of debt	-1,026,670	
9	Increase in Transfer to Major Repairs Reserve re Depreciation in line with the Self Financing Settlement	816,890	
10	Impairment of non dwelling assets	1,000,000	
11	Increase in Revenue Contribution to Capital	5,004,450	
12	Other Variations	62,300	
13	**TOTAL VARIATIONS**		6,707,260
14	**2014/2015 DRAFT BASE BUDGET**		**19,649,130**

APPENDIX C

Housing Revenue Account - Draft Budget 2014/15

	DEVELOPMENT PROPOSALS	2014/15 Expenditure £	Rent Equiv p	Full Year Effect £
	Berneslai Homes Management Fee			
i	Welfare Reform	20,180	2.28	20,180
ii	Customer Services Organisation	123,000	13.87	-
iii	Extension to Community Refurbishment Scheme	150,000	16.91	300,000
iv	Environmental Improvements	150,000	16.91	150,000
	Less Funded by Berneslai Homes Retained Reserves	-123,000	-16.14	0
	Sub Total- Berneslai Homes	**320,180**	**36.10**	**470,180**
v	**TOTAL -**	**320,180**	**36.10**	**470,180**

Appendix C (i)

HOUSING REVENUE ACCOUNT – DRAFT BUDGET 2014/15

DETAILED DEVELOPMENT PROPOSAL

Welfare Reform- One additional FTE Rents Assistant

1. Introduction

The Welfare Reform Act sets out the most radical changes to the welfare system in a generation. The reforms will have a major impact on many tenants & a number of the reforms will have a direct financial impact on the Housing Revenue Account Self Financing Business Plan, these include:

- Under-occupancy Subsidy
- Universal Credit including payment of rent directly to the tenant rather than landlord
- Requirements for claims to be made on-line.

Of the above, the Under occupancy change was implemented on 1st April 2013. The others will be phased in depending on Government timescales before the deadline of 2017.

In addition to Welfare Reform, many tenants are experiencing financial hardship as a result of the state of the economy, rising utility bills etc.

2. Present

The result is that workloads are increasing in several parts of Berneslai Homes as rent arrears and former tenants' arrears begin to increase along with the increasing number of council tenancies becoming void and requiring re-letting. There is a particular pressure on the Rents Team which is responsible for setting up & managing tenants' accounts including pursuing rent arrears & former tenants arrears.

3. Proposal

In the Self-Financing HRA Business Plan, the collection of rent is of vital importance. An additional Rents Assistant is necessary to meet the increasing workloads as a result of increased pressures on household budgets and their ability to pay their rent.

It is therefore proposed to increase the Rents Team by 1 FTE Rents Assistant .

4. Financial Implications

The proposals will cost £20,180 in 2014/15 and future years.

Appendix C (ii)

HOUSING REVENUE ACCOUNT – DRAFT BUDGET 2014/15

DETAILED DEVELOPMENT PROPOSAL

Participation in BMBC Customer Services Organisation

1. Introduction

BMBC have embarked on an ambitious programme of activity to improve the delivery of customer services. At the same it is the intention to achieve efficiencies in service delivery. Enabling technologies to support this and channel shift include:

- Web platform
- Customer relationship management
- Appointments and e-booking
- Call centre systems
- On-line income management

The Council wishes to create a single customer view, for tenants this could include on-line rent accounting, viewing repairs on line, and on-line integrated self service options.

2. Present

Berneslai Homes is actively engaging in the CSO project with director level representation on the project board. In 2013/14 the sum of £123, 000 was approved to cover the costs of Berneslai Homes participation in this project which will significantly enhance access to services for customers and will lead to more efficient back office functions for instance the cessation of paper rent statements and repair receipts. Maximising and mainstreaming the use of electronic communication via bulk mailing, preference services, text messaging and use of social media will further improve access to services.

3. Proposal

In order to continue to effectively engage in the process it will be necessary to allocate the same level of resources in 2014/15. Work will be undertaken to ensure that business processes are re-engineered so that channel shift to self-service methods are fully utilized and customers and staff are supported through this significant change. These actions will support our key priorities around digital inclusion and welfare reform for the year

4. Financial Implications

A cost of £123,000 in 2014/15 to be funded from Berneslai Homes retained reserves.

Appendix C (iii)

HOUSING REVENUE ACCOUNT – DRAFT BUDGET 2014/15

DETAILED DEVELOPMENT PROPOSAL

COMMUNITY REFURBISHMENT SCHEME (CRS)

2. Introduction and Background

The Community Refurbishment Scheme (CRS) is an established apprentice training programme providing basic construction skills and aimed at those not in education or training. Last year 47 trainees completed their training programme, receiving NVQ's. It has a retention rate of 90.7% and of those who completed the training 91% have found work. It supports growing Barnsley's economy, provides training jobs, a route into permanent employment and a supply chain of trained labour for local business.

The scheme is run as a partnership between Berneslai Homes, Barnsley Community Build and Barnsley College.

The scheme undertakes environmental improvement on Council estates. Work includes boundary walls, fencing, drop kerbs, off road parking and hard and soft landscaping where appropriate. These works have been a major factor in the overall regeneration of the estates and, linked with other investment, to give a "complete package" feel to works in a local area.

The scheme is currently based at the Darfield Belbrook having completed environmental works at the Doles at Royston last year.

2. Present

Within the HRA 30 year business, there is no specific budget to undertake wide scale environmental improvement works to Estates. The CRS scheme therefore provides a vital role of estate based low cost environmental improvement. This is complimented by £320,000 per annum devolved to local steering groups to provide targeted improvement works in wider local areas.

The current annual CRS budget of £265,000 includes for two permanent members of staff, training and placement fees, accommodation, plant and materials.

3. Proposal

It is proposed in 2014/15 and in following years to increase the size of the Community Refurbishment Scheme. This will be achieved by developing another site based scheme with similar training and environmental improvement works outcomes to the existing programme. This will include two additional training / supervision staff. The new scheme will

- Supports growing Barnsley's economy.
- Provides approximately 47 additional training placements targeted at those not currently in employment, education or training taking the total number of trainees to around 94 .
- Provide an opportunity route for the trainees into permanent employment.
- Increase the supply chain of trained labour for local business.

The enlarged scheme will continue to be in partnership with other local training and education agencies.

4. Financial Implications

The proposal will cost an additional £150,000 in 2014/15 and £300,000 in future years.

Appendix C (iv)

HOUSING REVENUE ACCOUNT – DRAFT BUDGET 2014/15

DETAILED DEVELOPMENT PROPOSAL

Environmental Improvements

1. Introduction

   Barnsley MBC Neighbourhood Services has provided a cyclical and responsive grounds maintenance service to Berneslai Homes since the ALMO was established in 2002. This covers grounds maintenance, void garden clearance and other sundry environmental issues at a cost of £1,067,790. The cyclical maintenance overall costs are £555,740 (this includes grass cutting, shrub and rose bed maintenance, weed control, litter picking and hedge trimming) and the responsive side which includes clearing void gardens, garage sites and fly tipping is £512,050.

2. Present

   We are seeing an increase in the number of properties becoming void. Some of this increase will be attributable to families moving because of the Under occupancy charge. At 30/9/13 we have let 921 properties. Should the vacancy rate continue at the current level we will have had approximately 1850 vacancies by the year end, an increase of approximately 350 on 2012/13. This puts a direct pressure on the responsive budget spent with Neighbourhood Services on clearing void gardens. The average cost of a void garden this year is around £350.

3. Proposal

   To make an additional budgetary provision of £150,000 per annum available in order to effectively manage the increased demand for void property garden clearances.

4. Financial Implications

   A cost of £150,000 in 2014/15 and future years.

Housing Revenue Account - Draft Budget 2014/15

SAVINGS PROPOSALS		2014/15 Expenditure £	2014/15 Rent Equiv p	Full Year Effect £
	Housing Revenue Account			
i	Garages and Garage Plots	13,920	1.57	13,920
ii	Door Entry/CCTV	710	0.08	710
iii	Communal facilities charge (Sheltered Schemes)	9,210	1.04	9,210
iv	Communal facilities charge (Other)	870	0.10	870
v	Water Charges	6,430	0.72	6,430
vi	Heating Charges	94,770	10.68	94,770
vii	New Build service charge	900	0.10	900
viii	Furnished Tenancy Scheme	1,000	0.11	1,000
	Berneslai Homes Management Fee			
ix	Senior Management Review	61,440	6.93	60,160
	Sub Total- Berneslai Homes	**61,440**	**6.93**	**60,160**
	TOTAL - Savings Proposals	**189,250**	**21.34**	**187,970**

There are no individual reports for items (i) to (vi) which are covered in sections 4.3 to 4.9 in the report

Appendix D(vii)

HOUSING REVENUE ACCOUNT – DRAFT BUDGET 2014/15

DETAILED SAVINGS PROPOSAL

Service Charges New Build

1. Introduction

Service charges are levied for communal services/facilities on new build developments. There are currently 24 new build properties with communal facilities/services. Charges are calculated on a scheme by scheme basis.

2. Present

The charges have been reviewed based upon actual costs.

3. Proposal

Vernon Crescent

	2013/14 £	2014/15 £
Communal cleaning	1.74	1.74
External window cleaning	0.16	0.16
Communal garden	1.36	1.36
Internal window cleaning & bin stores	1.33	1.33
Communal lighting	0.42	1.02
Water	-	0.15

Lidgett Close.

Communal cleaning	1.61	1.61
External window cleaning	0.33	0.33
Internal window cleaning & bin store	0.30	0.30
Communal lighting	0.42	1.23

Halifax Street (Rockingham St)

Communal cleaning	1.74	1.74
External window cleaning	0. 33	0.16
Internal window cleaning & bin store	1.07	1.07
Communal lighting	0.42	1.23
Water	-	0.31

4. Financial Implications

The proposal will generate additional income of £900 in 2014/15 and subsequent years.

Appendix D(viii)

HOUSING REVENUE ACCOUNT – DRAFT BUDGET 2014/15

DETAILED SAVINGS PROPOSAL

Furnished Tenancy Charges

1. Introduction

The Council has approximately 130 Furnished Tenancies.

2. Present

A review of current charges on the Furnished Tenancy scheme has been undertaken.

3. Proposal

The proposed charges based upon recovery of actual costs are detailed below:-

Package	Includes	New Charge
1 - 1 bed property	Floor coverings, curtains, fridge and cooker	£9.77
2 - 1 bed property	Floor coverings, curtains, fridge, cooker, 2 seat sofa, small dining table and 2 dining chairs	£12.20
3 - 1 bed property	Floor coverings, curtains, fridge, cooker, double bed, combined chest and wardrobe	£11.59
4 - 1 bed property	Floor coverings, curtains, fridge, cooker, 2 seat sofa small dining table, 2 dining chairs, double bed, combined chest and wardrobe	£14.01
5 - 2 bed property	Floor coverings, curtains, fridge and cooker	£10.73
6 - 2 bed property	Floor coverings, curtains, fridge, cooker, 3 seat sofa, small dining table, 4 dining chairs	£13.99
7 - 2 bed property	Floor coverings, curtains, fridge, cooker, double bed, single bed, 2 combined chest and wardrobe	£14.27
8 - 2 bed property	Floor coverings, curtains, fridge, cooker, 3 seat sofa, small dining table, 4 dining chairs, double bed, single bed, 2 combined wardrobes/chest of drawers	£17.52
9 - 3 bed property	Floor coverings, curtains, fridge and cooker	£11.69
10- 3 bed property	Floor coverings, curtains, fridge, cooker, large dining table, 4 dining chairs, 3 seat sofa, 1 armchair	£16.08
11 - 3 bed property	Floor coverings, curtains, fridge, cooker, double bed, 1 single bed, 1 set of bunk beds, 2 combined wardrobes/drawers	£15.89
12 - 3 bed property	Floor coverings, curtains, fridge, cooker, large dining table, 4 dining chairs, 3 seat sofa, 1 armchair, double bed, 1 single bed, 1 set of bunk beds, 2 combined wardrobes/drawers	£20.24

4. Financial Implications

The revised charges will lead to increases of £0.16 per week (over 48 weeks) for all of the packages generating additional income of £1,000.

Appendix D(ix)

HOUSING REVENUE ACCOUNT – DRAFT BUDGET 2014/15

DETAILED SAVINGS PROPOSAL

BERNESLAI HOMES SENIOR MANAGEMENT TEAM RESTRUCTURE

1. Introduction

The senior management team of Berneslai Homes (SMT) consists of the positions of Chief Executive (CEO) and four Directors. Since the current CEO commenced in January 2007 there have been a number of company restructures to ensure structures are fit for purpose, efficiencies maximised and readiness for operating in a self-financing business environment which have led to a reduction of 228 posts over a six year period.

2. Present

Within the previous changes in service areas across the Director's portfolio it had not been felt necessary to reduce the SMT capacity. Berneslai Homes continues to be a low cost, high performing company. The business plan faces pressure from welfare reform and increasing right to buys, as well as the general austerity measures facing local authorities. There is a need to ensure that the service configuration of each Director is fit for purpose for the challenges facing the company.

3. Proposal

On reviewing the current service areas and the best fit of these services to ensure we achieve maximum efficiencies and outcome it is proposed that there is a reduction in Directorates from 4 to 3. The Asset, Regeneration and Construction directorate will remain in its current form and there will be two new Directorates of Corporate Services and Customer and Estate Services. Currently infrastructure and support services are split between two directorates and it makes sense to bring these service areas together to provide more synergy and joint working on corporate priorities. In the same vein the overarching approach to how we engage with customers and how services are accessed are currently separate from our front facing services and these will be bought together into a single directorate. The revised structure will be operational from 1st April and in 2014/15 further work will take place to identify further efficiencies either by process reengineering and/ or merger of teams.

4. Financial Implications

There will be a reduction of one Director post which will generate on-going savings of £61,440 in 2014/15 and £60,160 in subsequent years. Any one-off costs associated with the restructure will be funded from Berneslai Homes retained reserves.

APPENDIX E

Housing Revenue Account - Draft Budget 2014/15

	WORKING BALANCE	2013/14 Original £	2013/14 Projected Outturn £	2014/15 Draft £	2014/15 Rent Equiv p
1	Balance Brought Forward	22,529,550	21,111,608	24,123,658	2,720
2	Use of Working Balance (Appendix A line 22)	-12,941,870	3,012,050	-15,646,640	-1,764
3	**Balance Carried Forward**	**9,587,680**	**24,123,658**	**8,477,018**	**956**
	Earmarked for :				
4	General Contingency	1,000,000	1,000,000	1,000,000	113
5	Heating Services Unit Contingency	50,000	50,000	50,000	6
6	Disrepair Insurance	167,951	136,121	136,121	15
7	Sheltered Scheme Decoration & Furnishings	15,960	15,960	15,960	2
8	Garage Access Regularisation	15,000	15,000	15,000	2
9	Welfare Reform	2,000,000	2,000,000	3,339,110	376
10	Interest Rate Risk	2,328,769	2,328,769	2,328,769	263
11	Revenue Contribution to Capital	0	15,842,380	0	0
12	Impairment Charges	4,000,000	1,582,058	1,582,058	178
13	Other	10,000	10,000	10,000	1
14	Support for 30 Year Business Plan	0	1,143,370	0	0
15	**Total**	**9,587,680**	**24,123,658**	**8,477,018**	**956**

Appendix F

HOUSING REVENUE ACCOUNT - 2014/15 BUDGET

DRAFT TIMETABLE TO INCREASE HOUSING RENTS

1.	Cabinet	15 January 2014
2.	Council	6 February 2014
3.	Rent increase notices printed	24 February 2014
4.	Rent increase notices delivered by	28 February 2014
5.	Four weeks notice expires	30 March 2014
6.	New rent increase applicable	31 March 2014

Appendix G

Housing Revenue Account 30 Year Business Plan

Introduction

1. Self financing commenced from April 2012. This means that from 2012/13 the housing subsidy system ceased and the Council now keeps all the rent income to fund the Housing Revenue Account.

2. The first call against the rent income is the cost of borrowing. After paying £22M to the Government to 'buy' itself out of the subsidy system the Council entered the self financing regime with an actual Housing Revenue Account debt of £291M and a maximum debt cap of £301M

3. The 30 year HRA Business Plan which was reported to Cabinet in January 2013 (16.1.2013/9) has been updated to reflect the latest information and assumptions on costs and income.

Current Position

4. The plan continues to be based upon current levels of service and the maintenance of the Barnsley Homes Standard. In the original plan there was no funding included for service enhancements, for environmental works, or to meet the tenants' aspirations for an enhanced Decent Homes Plus Standard.

5. It has been possible in the latest plan to accommodate some limited additional spend aligned with the Council's corporate objectives, including the following:-

   - A further small new build programme of approximately 35 dwellings and £1M for an extension to the acquisition programme
   - Increase in the size of the Community Refurbishment scheme.
   - Mainstreaming of the additional funding for steering group environmental budgets and extra funding for environmental works linked to void properties.

6. However, there remains no provision within the plan for large scale regeneration of estates or replacement of stock which has passed it useful life (demolition & rebuild). The updated 30 year revenue and capital plans are attached at Annex 1 and 2 respectively.

Government rent policy

7. Earlier this year the Government announced proposed changes to rent policy (as outlined in section 3.29 of the main report) including an end to rent convergence. Initial modelling indicated that ceasing rent convergence would result in a debt outstanding of £100M at the end of

the 30 year business planning period. The impact upon the business plan has been mitigated by the decision (cab 9.10.2013/9.1) to move empty properties straight to target rent. This policy has been implemented for properties advertised from 1 November 2013. The Government consultation paper on the proposed changes has recently been published and this now details that void properties can continue to be move to target rent post April 2015. This further mitigates the impact of the proposed changes upon the business plan.

8. The consultation paper is merely guidance and local authority rents are currently controlled by rent limits (which are calculated based upon Government rent policy) above which no housing benefit subsidy is paid. However, the Consultation paper does not fully explain how local authority rent limits will be calculated moving forwards or how they will be replaced under Universal Credit where the current approach will not be possible (as benefits will be paid direct to tenants).

9. A second aspect of the proposed change in rent policy is the move, in respect of the annual inflationary uplift, from RPI (Retail Price Index) plus 0.5% to CPI (Consumer Price Index)plus 1%. RPI is currently running at around 0.5% above CPI and on this basis the change in approach would not appear to have an impact. However, over the last 10 years RPI has averaged over 1% above CPI. It is not possible to predict the future gap between the two measures of inflation. What is important for the business plan is the differential between the inflation assumption for rent income and the inflation assumption for revenue and capital spend. The latest plan continues to assume an inflation on spend of 2.5% (CPI plus 0.5%) and inflation on income of 3% (CPI plus 1%). This planning assumption effectively sets an inflation target of CPI plus 0.5% for expenditure over the 30 year plan. If the target cannot be met in may be necessary to reduce underlying spend to balance the plan.

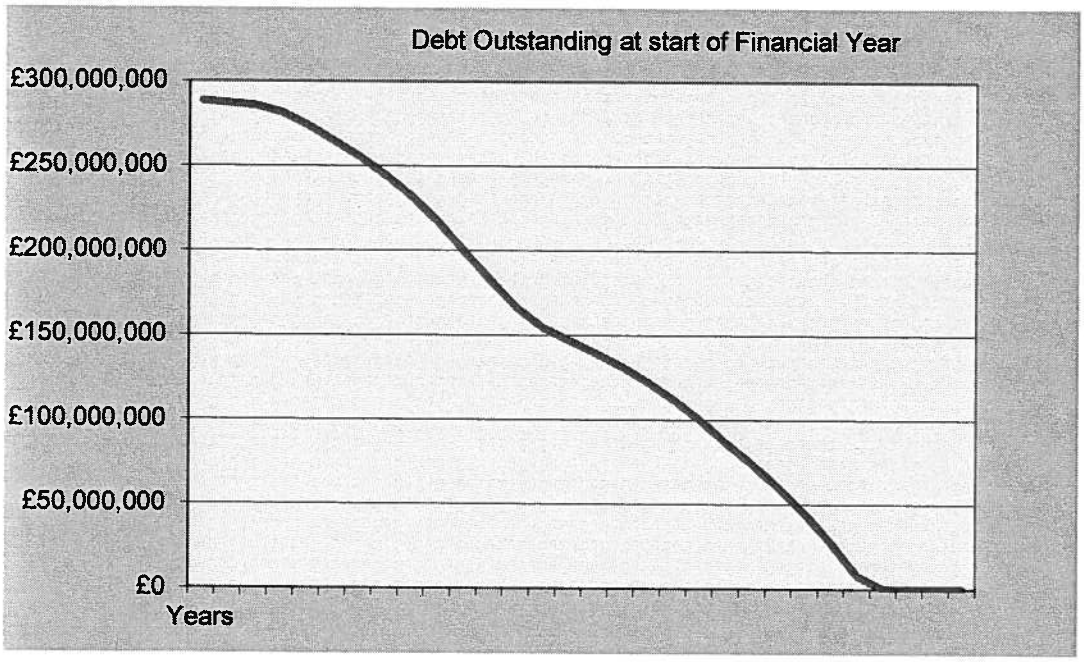
<u>Other Planning Assumptions</u>

10. The assumptions within the Business Plan have been reviewed and updated as appropriate. Significant assumptions include the following:

- Bad Debts provision retained at £1.1M for 2014/15 (1.54% of rent income) and 2.85% in later years due to Welfare Reform
- Interest rates in years 1 to 5 in the range 4.5% to 4.6% with rates in year 6 to 10 at 5%. The rates are based upon the actual loans taken on by the HRA following the splitting of the Council's debt pool and latest projections of rates on new borrowing and variable rate loans. Rates for years 11 to 30 remain at 5.5%
- Increased levels of Right to Buy from 2,974 to 3,625 over the 30 year plan based upon estimates provided by NPS.
- Increased losses of income from voids from 0.77% to 1.19% of rent income in line with the current increase in void numbers

Viability of the plan

11. The updated plan remains viable as measured by the ability to repay debt within the 30 year planning period with debt fully repaid by year 26 (2039/40). This is a small deterioration from the previous forecast where debt was anticipated to be repaid by 2037/38. This reflects the inclusion of rent levels in line with the proposed new Government rent policy offset by other changes to base data and assumptions. However, this must be viewed with caution given the significant risks around the Welfare Reform agenda and the changes to the Right to Buy discount. A sensitivity analysis has been included at Annex 3 to demonstrate the impact on the viability of the 30 year HRA Business Plan should there be any change to the variables that have been assumed in the latest modelling of the plan.



12. The accepted benchmark assessment of the viability of the plan is based on the ability to repay the opening debt within 30 years, as demonstrated at section 8. Yet, there is no requirement to repay the debt. Moving forward the asset base of the dwellings could give security for continued borrowing which would potentially allow additional investment in the stock over and above current plans. However, in the early years of the plan there is limited headroom for additional investment. Further there is significant uncertainty currently around the impact of Welfare Reform on HRA income.

Risks

13. The major risks to the long term plan are the same as those for the 2014/15 HRA budget which are outlined in the main report together with those associated with the change in Government rent policy which are detailed in sections 7 to 9 above.

Annex 1 – HRA 30 Year Business Plan
Annex 2 – Capital 30 Year Business Plan
Annex 3 – Sensitivity analysis

ANNEX 1

Year £000s	2014.15 1	2015.16 2	2016.17 3	2017.18 4	2018.19 5	2019.20 6	2020.21 7	2021.22 8	2022.23 9	2023.24 10	2024.25 11
INCOME:											
Rental Income	71,568	73,772	75,973	78,082	80,016	81,896	83,721	85,435	87,005	88,318	89,470
Void Losses	-855	-881	-907	-932	-956	-978	-1,000	-1,020	-1,039	-1,055	-1,068
Service Charges	558	572	586	601	616	631	647	663	679	696	714
Non-Dwelling Income	382	391	401	411	422	432	443	454	465	477	489
Grants & Other Income	1,821	1,866	1,913	1,961	2,010	2,060	2,112	2,165	2,219	2,274	2,331
Total Income	**73,474**	**75,721**	**77,966**	**80,122**	**82,107**	**84,042**	**85,923**	**87,696**	**89,330**	**90,711**	**91,935**
EXPENDITURE:											
General Management	-16,046	-16,686	-17,216	-17,662	-18,104	-18,556	-19,020	-19,496	-19,983	-20,483	-20,995
Other Management	-298	-305	-313	-321	-329	-337	-345	-354	-363	-372	-381
Bad Debt Provision	-1,100	-2,103	-2,165	-2,225	-2,280	-2,334	-2,386	-2,435	-2,480	-2,517	-2,550
Responsive & Cyclical Repairs	-17,861	-18,338	-18,834	-19,211	-19,550	-19,874	-20,182	-20,465	-20,709	-20,892	-21,035
Total Revenue Expenditure	**-35,305**	**-37,431**	**-38,528**	**-39,419**	**-40,263**	**-41,101**	**-41,934**	**-42,750**	**-43,534**	**-44,264**	**-44,961**
Interest Paid & Administration	-13,141	-13,053	-13,273	-12,866	-12,618	-13,150	-12,587	-12,001	-11,314	-10,511	-10,607
Interest Received	192	64	66	79	98	113	132	152	173	197	188
Depreciation & Impairment	-20,085	-20,684	-21,300	-21,935	-22,091	-22,766	-23,463	-24,181	-24,421	-25,184	-25,970
Net Operating Income	**5,134**	**4,617**	**4,931**	**5,980**	**7,233**	**7,137**	**8,070**	**8,917**	**10,232**	**10,950**	**10,585**
APPROPRIATIONS:											
Debt Repayment	0	-7	-2,558	-5,748	-6,995	-6,889	-7,817	-8,651	-9,953	-10,651	-10,299
Revenue Contribution to Capital	-20,781	-4,365	-2,150	0	0	0	0	0	0	0	0
Total Appropriations	**-20,781**	**-4,373**	**-4,709**	**-5,748**	**-6,995**	**-6,889**	**-7,817**	**-8,651**	**-9,953**	**-10,651**	**-10,299**
ANNUAL CASHFLOW	-15,647	**244**	**222**	**232**	**238**	**248**	**253**	**266**	**279**	**299**	**287**
Opening Balance	24,124	8,477	8,721	8,943	9,175	9,413	9,662	9,915	10,181	10,460	10,760
Closing Balance	**8,477**	**8,721**	**8,943**	**9,175**	**9,413**	**9,662**	**9,915**	**10,181**	**10,460**	**10,760**	**11,046**

ANNEX 1

Year	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33	2033.34	2034.35	2035.36
£000s	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**	**22**
INCOME:											
Rental Income	90,782	92,628	94,930	97,421	100,064	102,762	105,531	108,363	111,247	114,190	117,189
Void Losses	-1,084	-1,106	-1,134	-1,163	-1,195	-1,227	-1,260	-1,294	-1,329	-1,364	-1,399
Service Charges	732	750	769	788	808	828	849	870	891	914	937
Non-Dwelling Income	501	514	526	540	553	567	581	596	611	626	641
Grants & Other Income	2,389	2,449	2,510	2,573	2,637	2,703	2,771	2,840	2,911	2,984	3,058
Total Income	**93,320**	**95,234**	**97,601**	**100,159**	**102,867**	**105,633**	**108,471**	**111,374**	**114,332**	**117,349**	**120,426**
EXPENDITURE:											
General Management	-21,520	-22,058	-22,609	-23,174	-23,754	-24,347	-24,956	-25,580	-26,220	-26,875	-27,547
Other Management	-391	-401	-411	-421	-431	-442	-453	-465	-476	-488	-500
Bad Debt Provision	-2,587	-2,640	-2,705	-2,777	-2,852	-2,929	-3,008	-3,088	-3,171	-3,254	-3,340
Responsive & Cyclical Repairs	-21,216	-21,521	-21,927	-22,374	-22,850	-23,336	-23,832	-24,339	-24,851	-25,371	-25,901
Total Revenue Expenditure	**-45,713**	**-46,619**	**-47,652**	**-48,746**	**-49,887**	**-51,055**	**-52,249**	**-53,472**	**-54,718**	**-55,988**	**-57,288**
Interest Paid & Administration	-9,696	-8,934	-8,410	-8,004	-7,583	-7,110	-6,572	-5,966	-5,274	-4,557	-3,838
Interest Received	142	102	87	89	91	93	95	98	100	103	105
Depreciation & Impairment	-26,781	-27,616	-28,477	-29,365	-30,279	-31,221	-32,192	-33,192	-34,222	-35,283	-36,376
Net Operating Income	**11,271**	**12,167**	**13,149**	**14,132**	**15,209**	**16,340**	**17,553**	**18,842**	**20,218**	**21,624**	**23,030**
APPROPRIATIONS:											
Debt Repayment	-11,046	-9,991	-6,353	-7,345	-8,098	-9,227	-10,441	-11,736	-13,110	-12,239	-13,620
Revenue Contribution to Capital	0	-1,992	-6,527	-6,526	-6,808	-6,805	-6,796	-6,783	-6,764	-9,046	-9,074
Total Appropriations	**-11,046**	**-11,984**	**-12,881**	**-13,871**	**-14,907**	**-16,032**	**-17,237**	**-18,519**	**-19,874**	**-21,286**	**-22,693**
ANNUAL CASHFLOW	**225**	**183**	**268**	**261**	**302**	**308**	**316**	**323**	**344**	**338**	**336**
Opening Balance	11,046	11,271	11,455	11,723	11,984	12,286	12,594	12,909	13,233	13,577	13,915
Closing Balance	**11,271**	**11,455**	**11,723**	**11,984**	**12,286**	**12,594**	**12,909**	**13,233**	**13,577**	**13,915**	**14,251**

ANNEX 1

Year £000s	2036.37 23	2037.38 24	2038.39 25	2039.40 26	2040.41 27	2041.42 28	2042.43 29	2043.44 30
INCOME:								
Rental Income	120,251	123,364	126,513	129,694	132,909	136,153	139,465	142,850
Void Losses	-1,436	-1,473	-1,511	-1,549	-1,587	-1,626	-1,665	-1,706
Service Charges	960	984	1,009	1,034	1,060	1,086	1,113	1,141
Non-Dwelling Income	658	674	691	708	726	744	763	782
Grants & Other Income	3,135	3,213	3,294	3,376	3,460	3,547	3,636	3,726
Total Income	**123,568**	**126,762**	**129,996**	**133,263**	**136,568**	**139,904**	**143,311**	**146,793**
EXPENDITURE:								
General Management	-28,236	-28,941	-29,665	-30,407	-31,167	-31,946	-32,745	-33,563
Other Management	-513	-526	-539	-552	-566	-580	-595	-610
Bad Debt Provision	-3,427	-3,516	-3,606	-3,696	-3,788	-3,880	-3,975	-4,071
Responsive & Cyclical Repairs	-26,437	-26,980	-27,525	-28,071	-28,618	-29,166	-29,723	-30,290
Total Revenue Expenditure	**-58,613**	**-59,963**	**-61,334**	**-62,726**	**-64,139**	**-65,572**	**-67,037**	**-68,534**
Interest Paid & Administration	-3,037	-2,137	-1,139	-393	-176	-181	-185	-190
Interest Received	108	111	113	133	207	321	439	561
Depreciation & Impairment	-37,502	-38,662	-39,856	-41,085	-42,351	-43,655	-43,655	-43,655
Net Operating Income	**24,524**	**26,111**	**27,780**	**29,192**	**30,109**	**30,817**	**32,872**	**34,976**
APPROPRIATIONS:								
Debt Repayment	-15,054	-16,631	-18,268	-8,055	0	0	0	0
Revenue Contribution to Capital	-9,096	-9,113	-9,126	-16,283	-15,125	-15,293	-16,802	-18,335
Total Appropriations	**-24,150**	**-25,745**	**-27,395**	**-24,338**	**-15,125**	**-15,293**	**-16,802**	**-18,335**
ANNUAL CASHFLOW	**373**	**366**	**385**	**4,854**	**14,983**	**15,524**	**16,070**	**16,640**
Opening Balance	14,251	14,625	14,991	15,376	20,230	35,213	50,737	66,807
Closing Balance	**14,625**	**14,991**	**15,376**	**20,230**	**35,213**	**50,737**	**66,807**	**83,448**

ANNEX 2

HOUSING CAPITAL PROJECTIONS

Year	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25
£000s	1	2	3	4	5	6	7	8	9	10	11
EXPENDITURE:											
Planned Fixed Expenditure	-41,842	-24,718	-23,126	-18,663	-20,634	-20,985	-21,034	-22,093	-22,577	-22,428	-33,205
Previous Year's B/F Shortfall	0	0	0	0	0	0	0	0	0	0	0
Total Capital Expenditure	**-41,842**	**-24,718**	**-23,126**	**-18,663**	**-20,634**	**-20,985**	**-21,034**	**-22,093**	**-22,577**	**-22,428**	**-33,205**
FUNDING:											
Major Repairs Reserve	19,085	19,684	20,300	17,981	19,945	20,289	20,331	21,383	21,860	21,703	32,473
Right to Buy Receipts	1,976	669	675	682	689	696	703	710	717	724	731
Unsupported Borrowing	0	0	0	0	0	0	0	0	0	0	0
Other Receipts/Grants	1	0	0	0	0	0	0	0	0	0	0
Other Reserves	0	0	0	0	0	0	0	0	0	0	0
Revenue Contributions	20,781	4,365	2,150	0	0	0	0	0	0	0	0
Total Capital Funding	**41,842**	**24,718**	**23,126**	**18,663**	**20,634**	**20,985**	**21,034**	**22,093**	**22,577**	**22,428**	**33,205**

HOUSING CAPITAL PROJECTIONS

Year	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33	2033.34	2034.35	2035.36
£000s	12	13	14	15	16	17	18	19	20	21	22
EXPENDITURE:											
Planned Fixed Expenditure	-34,035	-34,886	-35,758	-36,652	-37,856	-38,803	-39,773	-40,767	-41,786	-45,137	-46,266
Previous Year's B/F Shortfall	0	0	0	0	0	0	0	0	0	0	0
Total Capital Expenditure	**-34,035**	**-34,886**	**-35,758**	**-36,652**	**-37,856**	**-38,803**	**-39,773**	**-40,767**	**-41,786**	**-45,137**	**-46,266**
FUNDING:											
Major Repairs Reserve	33,296	32,147	28,477	29,365	30,279	31,221	32,192	33,192	34,222	35,283	36,376
Right to Buy Receipts	739	746	754	761	769	776	784	792	800	808	816
Unsupported Borrowing	0	0	0	0	0	0	0	0	0	0	0
Other Receipts/Grants	0	0	0	0	0	0	0	0	0	0	0
Other Reserves	0	0	0	0	0	0	0	0	0	0	0
Revenue Contributions	0	1,992	6,527	6,526	6,808	6,805	6,796	6,783	6,764	9,046	9,074
Total Capital Funding	**34,035**	**34,886**	**35,758**	**36,652**	**37,856**	**38,803**	**39,773**	**40,767**	**41,786**	**45,137**	**46,266**

HOUSING CAPITAL PROJECTIONS

Year	2036.37	2037.38	2038.39	2039.40	2040.41	2041.42	2042.43	2043.44
£000s	23	24	25	26	27	28	29	30
EXPENDITURE:								
Planned Fixed Expenditure	-47,422	-48,608	-49,823	-58,217	-59,673	-61,164	-62,693	-64,261
Previous Year's B/F Shortfall	0	0	0	0	0	0	0	0
Total Capital Expenditure	**-47,422**	**-48,608**	**-49,823**	**-58,217**	**-59,673**	**-61,164**	**-62,693**	**-64,261**
FUNDING:								
Major Repairs Reserve	37,502	38,662	39,856	41,085	42,351	43,655	43,655	43,655
Right to Buy Receipts	824	832	841	849	2,196	2,216	2,236	2,270
Unsupported Borrowing	0	0	0	0	0	0	0	0
Other Receipts/Grants	0	0	0	0	0	0	0	0
Other Reserves	0	0	0	0	0	0	0	0
Revenue Contributions	9,096	9,113	9,126	16,283	15,125	15,293	16,802	18,335
Total Capital Funding	**47,422**	**48,608**	**49,823**	**58,217**	**59,673**	**61,164**	**62,693**	**64,261**

Sensitivity Analysis

Scenario	Outstanding debt year 30	Debt Repayment Year	Maximum Capital Shortfall	Revenue Shortfalls	Revenue Surplus in year 30	Cumulative Revenue Surplus at year 30
Base	Nil	26	Nil	Nil	£17M	£83M
1% real increase in capital costs years 1 to 10	£120M	after year 35	Nil	Nil	Nil	minimum
1% real increase in repair costs years 1 to 10	£52M	33	Nil	Nil	Nil	minimum
1% real increase in management costs year 1 to 10	£55M	33	Nil	Nil	Nil	minimum
1% increase in inflation years 1 to 10	Nil	23	Nil	Nil	£19M	£157M
1% increase in interest rates (CRI) years 1 to 10	Nil	31	Nil	Nil	Nil	minimum
10% increase in Right to Buy Sales Years 1 to 10	Nil	27	Nil	Nil	£16M	£69M
1% increase in rent loss (through voids or bad debts) Years 1 to 30	Nil	30	Nil	Nil	£9M	£26M
Extra £10M per annum capital spend years 1 to 5	£131M	after year 35	£19M in 2019/20	Nil	Nil	minimum
1% increase in rent loss (through voids or bad debts) Years 1 to 30 together with 1% increase in interest rates years 1 to 10	£98M	34	Nil	Nil	Nil	minimum
1% increase in rent loss (through voids or bad debts) Years 1 to 30 together with 1% increase in interest rates years 1 to 10 together with 1% real increase in capital costs year 1 to 10	£300M	after year 35	Nil	Nil	Nil	minimum

Key

Outstanding debt at Year 30 - the total value of debt still outstanding at year 30 of the plan - It indicates the overall viability of the plan

Debt Repayment Year - the year in which all debt is paid off

Maximum capital shortfall - Where there is not enough funding in the plan to meet all capital spend in any year then the excess of planned spend over resources is carried forward to the following year. The maximum capital shortfall is the amount where this rolled forward sum reaches its maximum before resources in the plan are adequate to start to reduce and eventually clear this sum. It highlights pinch points within the 30 year plan

Maximum revenue shortfall - Where there is not enough funding in the plan to meet all revenue spend in any year whilst maintaining the minimum working balance

Revenue surplus at Year 30 - the surplus of income over expenditure which is generated in year 30 of the plan

Cumulative revenue surplus at year 30 - the total of all surpluses generated over the 30 years of the plan (i.e.the HRA working balance at year 30)