Agenda item 8

Bristol City Council
Business Change & Resources Scrutiny Commission
5 January 2015

Report of: **Service Director, Finance**

Title: **Scrutiny of 2015/16 Budget** **Ward:** Citywide

Officer presenting report: **Peter Gillett**

Contact telephone number: 0117 922 2419

Recommendation

That the Commission consider the draft budget/MTFS proposals for 2015/16.

Summary

Arrangements for 2015/16 budget and Medium Term Financial Strategy were considered by Cabinet at their meeting of 4 November 2014 (copy attached as an Appendix) and this formed the basis for the Budget issued for consultation by the Mayor on 17th November.

In addition a presentation in respect of the Neighbourhoods Directorate and an information paper in respect of the Housing Revenue Account are also attached. A presentation paper in respect of the Place Directorate will also be circulated to members at the meeting.

This is the second of two budget scrutiny sessions, the first was held on 15th December 2014. The Committee has also received a number of discussion/working papers in relation to both meetings.

Note:
Cabinet Report 4 November 2014 - Appended

Appendix

BRISTOL CITY COUNCIL
CABINET
4 NOVEMBER 2014

REPORT TITLE:

Arrangements for 2015/16 budget and Medium term financial strategy

Ward(s) affected by this report: Citywide

Strategic Director: **Max Wide – Strategic Director Business Change**

Report author: **Peter Gillett – Service Director Finance**

Contact telephone no. **0117 922 2007**
& e-mail address: **peter.gillett@bristol.gov.uk**

Purpose of the report:

To update Members on the principles and assumptions underlying the Council's approved Medium Term Financial Strategy; to roll forward the MTFS for a further year to include 2017/18; to outline proposals for public consultation arrangements for the 2015/16 draft budget and to seek Cabinet approval in line with the Council's constitution.

RECOMMENDATION for the Mayor's approval:

Cabinet are asked to note:

1. The initial financial forecast in relation to resources and expenditure at Appendix A

2. The key assumptions and principles underpinning the financial forecasts and the associated risks set out at paragraphs 16 to 29

3. The consultation arrangements as set out at paragraphs 30 - 32

BACKGROUND

1. The Medium Term Financial Strategy sets out the Council's key financial management principles, budget assumptions and service issues. The MTFS is kept under constant review to ensure it continues to align with the Council Plan and that resources are directed to delivery of priorities.

2. The Council approved the 2014/15 Budget and 2014/15 to 2016/17 medium term financial strategy in February 2014. This included proposals to ensure a balanced budget requirement across all three financial years. Planning and implementation are now well underway.

3. Those proposals were consulted on widely with the people of Bristol reaching significantly more people than any previous budget consultation. It is estimated that the promotional activity to raise awareness of the budget consultation reached an audience of over 50,000 people that in turn prompted approximately 10,000 views of web information and over 1,300 people to turn out in person to a public meeting. This led to a record response rate to the consultation (over 12 times the response in 2012) with nearly 3,900 people 'having a say' via paper and online surveys.

4. In addition to the measures to address the funding reductions, the approved MTFS accommodates:

   – That the Council continues to fully fund the Council Tax Reduction Scheme at an estimated cost of £4m;
   – Additional investment of £1.150m which is made up of: a hardship fund to help residents with the impact of welfare reform (£0.250m), investment in Parks and Play (£0.5m) and £0.4m to meet the cost of introducing the Living Wage for council employees (subsequently approved by Full Council in September 2014)
   – A Capital programme over the three years of £506m including provision for The Arena, Metrobus schemes and Schools investment

   Full Council, in September 2014, approved an amendment to the Council's pay policy to introduce a Living Wage Supplement, this would ensure the budget commitment is fulfilled and that all employees, including casual workers, receive no less than the Living Wage as their pensionable pay for all hours worked.

5. Members also approved, for one year only, further investments in sports development of £0.1m; maintaining previous levels of spending on parks to cover existing services while renegotiation for the contracts from 2015/16 was underway (£0.5m); pest control budgets of £0.2m; and transitional arrangements for children's centres of £0.5m. These additions were funded by one-off Icelandic Bank and VAT recoveries of £1.3m.

6. 2015/16 is the second year of the approved three-year financial plan and this report provides an opportunity to:

   (i) take stock of how plans are progressing and to take corrective action where necessary

   (ii) review the principles and assumptions underlying the MTFS

   The outcome of this review provides the framework for the budget proposals that will be published for consultation by the Mayor on 17 November.

MTFS 2014/15 – 2016/17: PROGRESS TO DATE

7. Regular budget monitoring reports throughout the financial year provide early waning of changes to the council's financial position. Directorates deal with a range of spending challenges throughout the year which they are expected to accommodate within their budgets. Where those pressures cannot be managed within approved budgets they are taken into account in updating MTFS.

8. The most recent budget monitoring report highlights specific budget pressures within

People directorate as well as early warnings of emerging pressures and issues in a number of other service areas. These demand led demographic pressures are most noticeable in Adult and Children's Social Care, Transport (e.g. concessionary fares), waste management and planning services. The financial impact of these pressures is currently being assessed in detail and management actions will be taken to manage and mitigate the costs. For financial planning purposes a prudent provision of an additional £2.5m per annum has included into overall MTFS.

9. On November 17th, the Mayor will announce his budget consultation. In doing so, his proposals for 2015/16 and beyond, will need to be cognisant of both the service and demographic pressures as well as any realignment of resources that may be required to ensure delivery of the mayoral priorities.

10. The savings proposals contained within the MTFS include both the Mayoral saving proposals consulted on and agreed in February 2014, and the major transformational change programme, the Single Change Programme. Delivery of these programmes is closely monitored to ensure delivery remains on track.

11. With regard to the Mayoral Savings, these are built into directorate budgets. Progress with these is positive and we expect the overall target to be achieved.

12. The Single Change Programme was adopted by the Council in September 2013. The Programme set out a number of projects with target timescales for the delivery of savings and improvements and these were incorporated within the MTFS.

13. As reported to Cabinet in October 2014, the Programme as a whole is on track to deliver on the savings and improvements required. Progress is monitored weekly and where issues occur, action taken to rectify any delays and to correct or absorb any variation from original targets and timescales. Significant savings which will be delivered this year include:

    - The Restructure workstream which is forecast to achieve in-year savings of £12.1m, rising in a full year to £21.2m;

    - The Category Management workstream which is forecast to deliver £4.1m by 31st March 2015.

14. The horizon beyond 2016/17 now comes into view as we look toward the next Comprehensive Spending Review. Inevitably there will come a time when efficiency programmes run out of track, where it will no longer be possible to reduce costs by reducing the cost of supply. In this case, we will need to look more ambitiously at the benefits to be gained through working more closely with our partners, sharing services and trying to find ways to reduce demand. In the July report to Cabinet we characterised these different approaches as 'steps'. Step 1 is about 'doing (existing) things better'; Step 2 is about doing better (or new) things.

15. The Business Change and Resources Scrutiny Commission will regularly review progress of the Single Change Programme as part of its 2014/15 work plan.

MTFS 2015/16 – 2017/18

Assumptions

16. Good financial management requires that the Council continually reviews its financial strategy to ensure that the financial plans remain robust. Planning assumptions made when the budget was set in February 2014 now need to be revisited and reassessed in line with latest information, announcements and intelligence.

17. An initial forecast of a refreshed MTFS is attached at Appendix A. This reflects the updated assumptions and emerging budget pressures as well as rolling forward the forecast for 2017/18. Overall the MTFS indicates a sound financial position over the forecast period. This must be considered however, against the background of challenging savings and transformation targets. The position beyond 2017/18 remains challenging as the period of funding reductions is indicated to continue into the next decade. Business Change and Resources Scrutiny Commission will continue to take a key role in scrutinising and challenging the budget assumptions.

18. The principal spending assumptions applied include:

- All existing approved savings plans are delivered

- 2.2% annual pay award in 2015/16 and 2% per annum thereafter (an increase from the 1% per annum previously assumed at a cost of £2.2m in 2015/16)

- 2.5% general contract inflation each year (unchanged)

- Annual pension increases in line with the 2013 revaluation (unchanged)

Local Government Funding

19. The Chancellor of the Exchequer announced the outcome of the 2013 Spending Review on 26th June 2013. The Spending Review set out the Governments spending plans for central government departments, the NHS and local government for 2014/15 and 2015/16. The Chancellor also confirmed that the Government intends to continue with its national austerity measures into 2020 and that the scale of reductions would be similar to those seen since 2010. The next CSR is not expected this side of the General Election.

20. The Local Government Finance Settlement announced in December 2013 provided an indicative settlement for 2015/16. For the Council the settlement indicated a cash reduction of 27% from 2014/15. Over the summer of 2014, the government conducted a technical consultation on aspects of the 2015/16 settlement but, in contrast to last year, the exercise has not revealed any further cuts in funding but has confirmed the 27% reduction for the Council.

21. Early modelling, based on HM Treasury forecasts and financial models from the Local Government Association indicate that the City Council could face an additional annual budget savings requirement of £49m by 2020.

22. Welfare Support funding is ceasing in 2015/16. It is understood that funding for welfare provision is to be included as a notional element within the settlement with no additional specific funding being included.

23. Better Care Funding - 2015/16 will see important changes to the delivery and funding of

Adult Social Care and integration with health. The Better Care Fund (BCF) combines £3.8bn nationally aimed at transforming health and social care services. This funding does not provide any new money across the health and social care sector, but it combines it into a pooled fund that will operate from 1st April 2015. The planned BCF for Bristol in 2015/16 totals £30.3m. The Department for Health requirement for the BCF include ensuring the financial sustainability of social care services, i.e. the BCF should fund demographic pressures and contribute to meeting the additional requirements of the Care Act.

24. Other Specific Grants - in general the MTFS assumes that all variations in specific grants, e.g. Dedicated Schools Grant, will be matched by variations in related spending.

25. Council Tax – income yield from council tax is dependent on the number of properties liable to council tax (the council tax base), the charge per property and the collection rate. The MTFS assumes an annual increase of 1.95% in the level of council tax. The Council tax base is now subject to increased volatility and takes account not only of the number of properties but also the level of discounts and exemptions. A significant factor is the number of families liable for discounts under the Local Council tax Reduction Scheme. In 2014/15 the increase in the number of properties liable to council tax was broadly in line with forecasts. However the taxbase increased materially due to (i) Council action to ensure Single Person discounts were being properly claimed (ii) a change in the calculation of Second Home Discounts and (iii) a general improvement in economic conditions meaning less working age families were eligible for council tax reductions. The Council Tax Base report will be presented to Council for approval in December.

26. Business Rates - under the Business Rates Retention scheme the Council shares in any business rates growth above the governments set baseline. A prudent approach to business rate growth has been included in the MTFS as there remains considerable uncertainty with regard to the number and value of successful business rate appeals, which can go back a number of years. The 2013/14 business rate collection fund showed a deficit of £7.5m after providing for outstanding appeals. This appeal provision, in accordance with accepted accounting practice from central government, has been spread across future years from 2014/15 to 2018/19. Accordingly the MTFS includes an annual RPI increase in business rate multiplier but does not include anything for year on year growth in the business rate tax base outside of the Enterprise areas. If possible, it will be prudent to consider establishing a reserve to cover the potential impact of such appeals.

27. The business rates taxbase is largely based on data produced after the end of October. We are currently therefore still working through all the detailed technical calculations and data. Initial data and intelligence does not provide evidence that the improving economic conditions are yet feeding through into increased business rate income. Indeed anticipated growth is likely to be within the Enterprise Zone and Enterprise Areas where the additional income will initially be passed to the LEP. The business rate taxbase and income will be approved in January 2015.

28. Council tax and business rate collection targets are on track.

Legislation

29. The Care Act received Royal Assent in May 2014 and it has wide ranging implications for adult social care services some of which take effect in April 2015 and the remainder in April 2016. There are significant financial risks associated with the delivery of the Care Act and the likely costs are currently very difficult to identify with reasonable accuracy. The Government has committed to fully funding the additional costs, but there can be no guarantees that this will be genuine new money and clearly represents an area of some risk.

TIMELINE

Date	Activity
17 November 2014	Mayor publishes budget proposals. Consultation is open for 6 weeks
16 December 2014	Full Council approval of Council Tax Band D equivalent properties for 2015/16 (Taxbase)
October 2014 - January 2015	Scrutiny meetings
29 December 2015	Consultation closes
13 January 2015	Cabinet – recommendation to Council for budget approval taking into account initial consultation feedback
17 February 2014	Final budget at Full Council

CONSULTATION ARRANGEMENTS

30. The Council undertook extensive consultation on the 2014/15 to 2016/17 budget and medium term financial strategy and also on the Local Council Tax Support Scheme as outlined in paragraph 3. Whilst the MTFS assumptions have been refreshed there are no significant decisions likely to be required as part of the budget consultation other than the level of council tax. Accordingly a lighter touch consultation will be undertaken on any proposed changes in respect of 2015/16 budget, the second year of the approved three year plan

31. On November 17th, the Mayor will announce his budget consultation. In doing so, his proposals for 2015/16 and beyond, will need to be cognisant of both the service and demographic pressures as well as any realignment of resources that may be required to ensure delivery of the mayoral priorities.

32. Consultation will be open for 6 weeks and consist of:

(i) Public website consultation (hard copies will be available)

(ii) Business and partner engagement

- Statutory consultation with businesses via presentations and discussions at scheduled meetings
- Discussions with voluntary and community sector partners

(iii) Frequently asked questions and updates will be provided through the consultation

33. After the consultation closes the results will be collated and analysed ready for consideration at Cabinet in January and Full Council in February and published on the council website.

Consultation and scrutiny input:

a. Internal consultation:

- SLT
- Consultation team
- The Business Change and Resources Scrutiny Commission have considered the assumptions underpinning the budget and financial strategy and any changes arising from updates to those assumptions. Further sessions are planned to review the budget following announcement of the Mayor's updated proposals.

b. External consultation:

N/A

Other options considered:

Consultation is a statutory requirement for businesses only.

A wider public consultation was considered. However, extensive consultation was undertaken on the MTFS leading up to the approval of the current three year MTFS. 2015/16 is the second year of that Strategy and other than the level of council tax, no significant changes are proposed.

Risk management / assessment:

The following table identifies the key financial risks to the Council's financial position over the medium term, the mitigating actions in place and planned to reduce the impact of these risks on the Council's future financial position.

	Key Financial Risks	Likelihood	Impact	Mitigating Actions
	Unexpected events or emergencies By its nature, the financial risk is uncertain	Medium	High	• Council maintains a Strategic and General Reserve at a level of around 5% of its revenue budget for emergency purposes • Level of reserve is currently £20.0m
	Increasing demand for Adult Social Care Demand for services continue to increase as Bristol's population gets older	High	Medium	• Demand led pressures provided for within our spending plans • Activity indicators are being developed and are detailed below. These will be reported monthly alongside budget monitoring
	Potential Overspend and Council does not deliver required level of savings to balance spending plans Challenging savings have been identified within our	Low	Low	• High risk budget areas have been identified and financial support is targeted towards these areas • Regular progress reports on delivery of savings to Management Teams and Executive Board • Budget monitoring arrangements for

	spending plans.			forecasting year end position to be reviewed.
	Potential delay in delivery of Capital Receipts	Medium	Low	• Potential new capital receipts may be available from further corporate property review. • Capital receipts received to be monitored quarterly
	Increase in Pension Liabilities Our contributions are influenced by market investment returns and increasing life expectancy.	High	Medium	• Our spending plans reflect the level of pension contribution required as identified by the Avon Pension Fund's Actuary in 2013 for the next three years • New pension regulations changing scheme benefits to be implemented from 2014
	Non delivery of the Change Programme The Single Change Programme will transform the Council's internal managment structure	Low	High	• Substantial savings have been identified and plans developed to ensure their delivery • Savings are removed from operating budgets to highlight overpsends early. • Project delivery costs are to be rigorously monitored and managed

These financial risks are reflected in the assessment of the adequacy of council reserves and the use of reserves over the next three years.

Public sector equality duties:
N/A as this is an information report. Any changes as a result of the budget proposals will be considered.

Eco impact assessment
N/A

Resource and legal implications:

Finance

a. Financial (revenue) implications:
Guidance:
The revenue costs of the consultation will be contained within existing budgetary provision.

Advice given by Robert Woollatt, Interim Service Manager Corporate Finance
Date 10 October 2014

b. Financial (capital) implications:
Guidance:
None
Advice given by Robert Woollatt, Interim Head of Corporate Finance
Date 10 October 2014

Comments from the Corporate Capital Programme Board:
N/A

c. Legal implications:

The report sets out the proposals for the Mayor's budget consultation for 20115/16. The

proposals meet the public law duty to undertake proper public consultation particularly in relation to the requirement to set council tax, and the specific legal requirement to consult with business rate payers on its annual budget proposals. The proposals also comply with the Council's Budget and Policy framework requirements for consultation.

Nancy Rollason, Service Manager, Legal services

d. Land / property implications:
N/A

e. Human resources implications:
N/A

Appendices:
Appendix A - initial draft of updated MTFS

APPENDIX A

UPDTED MTFS 14 OCTOBER 2014 (see changes in table below)

2014/15 £'m		2015/16 £'m	2016/17 £'m	2017/18 £'m	2018/19 £'m	2019/20 £'m
	Departmental Summary					
217.7	People Directorate	213.6	212.9	212.9	212.9	212.9
59.6	Neighbourhoods	59.1	59.2	59.2	59.2	59.2
18.3	Place	18.1	18.3	18.3	18.3	18.3
55.8	Busines Change	55.4	54.2	54.2	54.2	54.2
9.1	City Director	9.1	9.1	9.1	9.1	9.1
(5.3)	Change Programme	(37.5)	(59.0)	(64.0)	(64.0)	(64.0)
21.4	Other Budgets	37.0	39.3	47.4	51.9	63.2
376.6	**TOTAL NET COST OF SERVICES**	**354.8**	**334.0**	**337.1**	**341.6**	**352.9**
	FUNDED BY:					
(110.4)	Formula Grant	(80.0)	(60.0)	(48.0)	(38.4)	(30.7)
(164.2)	Council Tax	(172.9)	(173.6)	(178.3)	(183.2)	(188.2)
(92.5)	Business Rates	(95.0)	(97.6)	(99.6)	(101.5)	(103.6)
(9.5)	New Homes Bonus	(10.8)	(12.1)	(11.2)	(9.9)	(7.5)
-	Contribution to/(from) reservs	3.9	9.3	-	-	-
(376.6)	**Spending Pressure**	**(354.8)**	**(334.0)**	**(337.1)**	**(333.0)**	**(330.0)**
-	**SHORTFALL**	**-**	**-**	**-**	**8.6**	**22.9**

MTFS CHANGES INCLUDED IN REFRESHED MTFS (including forecasts to 2019/20)

2014/15 £'m		2015/16 £'m	2016/17 £'m	2017/18 £'m	2018/19 £'m	2019/20 £'m
	FUNDING CHANGES					
	Formula Grant	-	-	12.0	21.6	29.3
	Council Tax (Note 1)	(4.6)	(4.7)	(9.4)	(14.3)	(19.3)
	Business Rates	-	-	(2.0)	(3.9)	(6.0)
	New Homes Bonus	-	-	0.9	2.2	4.6
	Reassessment of council tax base in year benefit	(3.9)	-	-	-	-
	Funding (benefit)/pressure	**(8.5)**	**(4.7)**	**1.5**	**5.6**	**8.6**
	SPENDING PRESSURES					
	Pensions	-	-	1.8	3.6	5.4
	Pay Award	2.2	4.0	7.6	11.2	14.8
	Contract Inflation	-	-	3.4	6.8	10.2
	Emerging issues	2.4	5.0	7.5	10.0	12.5
	Spending Pressure	**4.6**	**9.0**	**20.3**	**31.6**	**42.9**
	OTHER CHANGES					
	One Change Programme invstment - time limited	-	-	(5.0)	(5.0)	(5.0)
	Reduce contingency	-	-	(3.2)	(10.0)	(10.0)
	SAVINGS OPPORTUNITIES	**-**	**-**	**(8.2)**	**(15.0)**	**(15.0)**
	Contribution to/(from) reserves (Note 2)	-	(4.3)	(13.6)	(13.6)	(13.6)
	Reassessment of council tax base in year benefit	3.9	-	-	-	-
	RESIDUAL BUDGET DEFICIT	**-**	**-**	**0.0**	**8.6**	**22.9**

Note 1 – The council tax adjustment in 2015/16 and 2016/17 reflect the increase in the taxbase only as a 1.95% was already assumed in the approved MTFS. Beyond this an annual increase of 1.95% is assumed.

Note 2 – The MTFS approved by Council in February assumed a repayment to reserves of £13.6m in 2016/17. This is now needed to meet spending pressures of £4.3m in 2016/17 and in full in 2017/18 and beyond.

Neighbourhoods Business Change and Resources Scrutiny

5 January 2014

Neighbourhoods Business Change and Resources Scrutiny

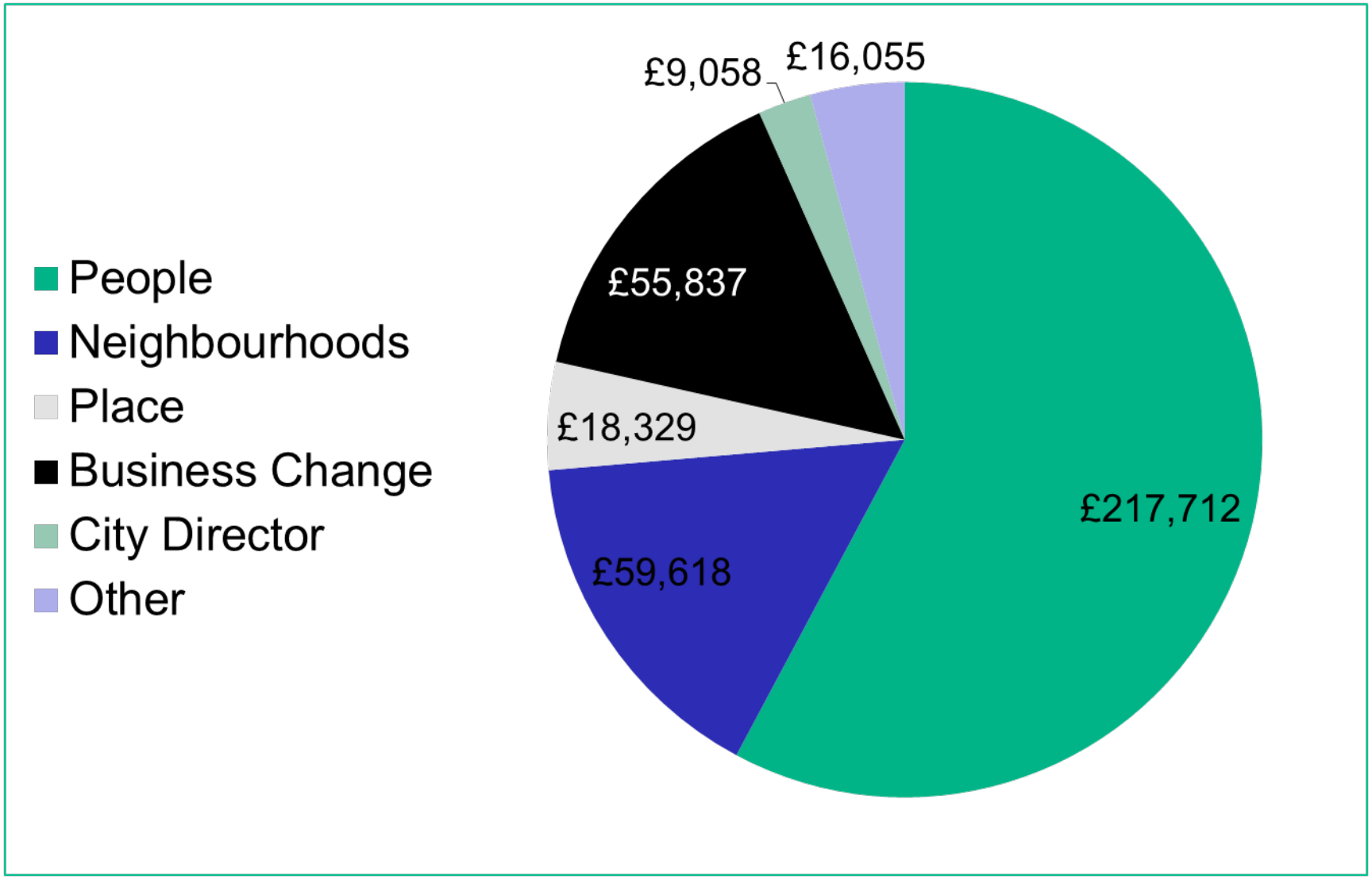
Contents

- Revenue Net Budget Overview
- Budget Saving Proposals 2014/15 to 2016/17
- Revenue Budget Monitoring 2014/15
- Key Budget Issues

Neighbourhoods

REVENUE NET BUDGET OVERVIEW

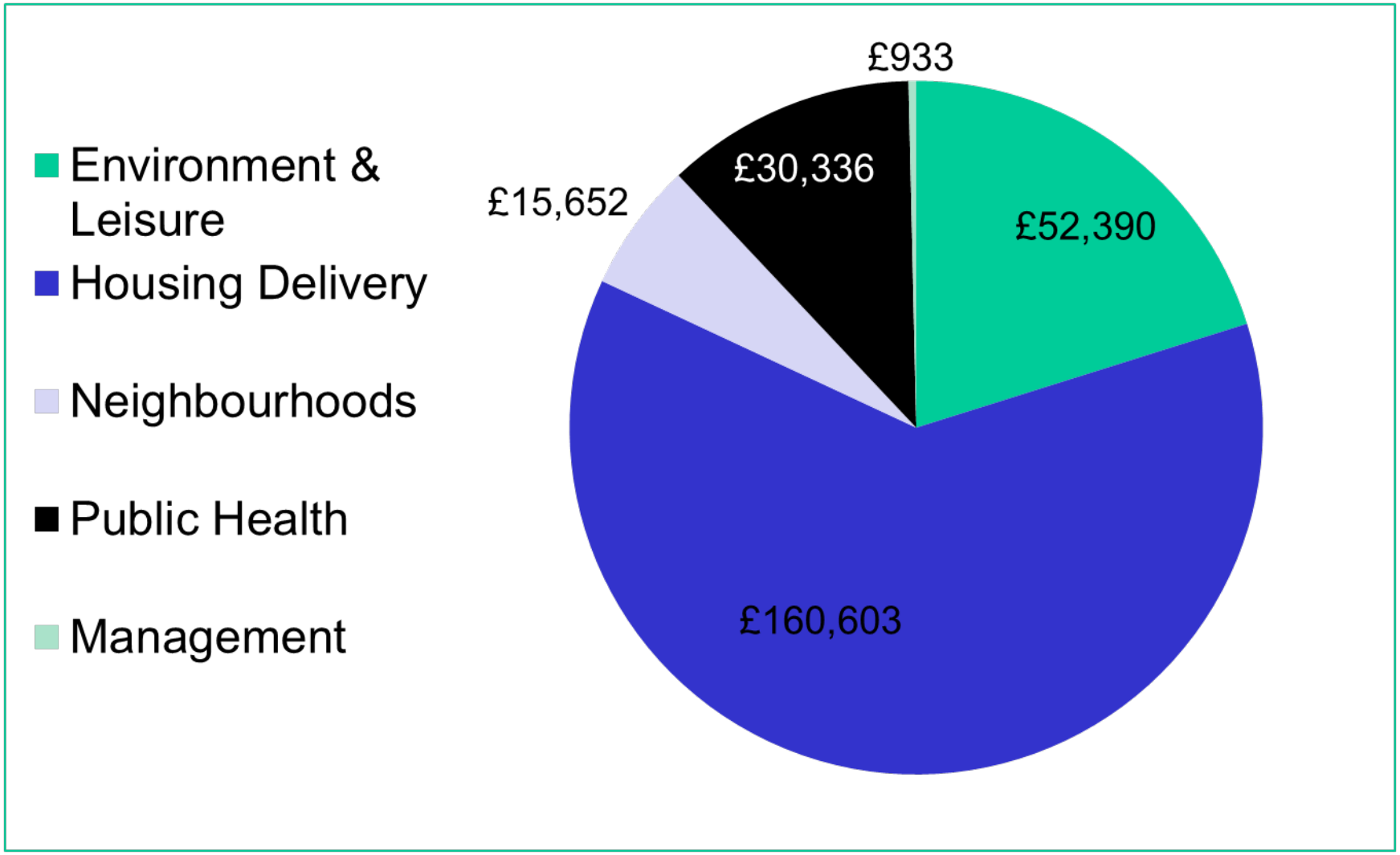
Neighbourhoods 2014/15 Revenue Net Budget (£000s)



Neighbourhoods 2014/15 Revenue Net Budget

Service	2014/15 Income Forecast £000s	2014/15 Less Expenditure Forecast £000s	2014/15 = Net Budget £000s
Environment & Leisure	16,424	52,390	(35,968)
Housing Delivery (HRA)	151,414	160,603	(9,187)
Neighbourhoods	2,763	15,652	(12,889)
Public Health (ring fenced grant)	29,650	30,336	(686)
Management	45	933	(888)
Total	**200,296**	**259,914**	**(59,618)**

Neighbourhoods 2014/15 Forecast Expenditure £000s



Neighbourhoods

Environment & Leisure	Housing Delivery (HRA)	Neighbourhoods	Public Health
• Parks, Estates and Green Spaces • Sport and Play • Housing Caretaking • Waste • Nature conservation • Allotments • Cemeteries and Crematoriums • Pest Control	• Responsible for 27,851 dwellings • Responsive repairs • Estate management • Landlord policy and projects • Planned programmes, e.g. heating and gas	• Neighbourhood Management • Library Services • Health Improvement • Regulatory Services, e.g. licensing	• Public Health Outcomes Framework • Health Improvement • Health Strategy

Neighbourhoods

BUDGET REVENUE SAVING PROPOSALS 2014/15 – 2016/17

Neighbourhoods Budget Revenue Savings Proposals 2014/15 to 2016/17

Saving Proposals*	2014/15 £000s	2015/16 £000s	2016/17 £000s	Total £000s
Council total	16,082	11,776	11,664	39,522
Neighbourhoods total	5,775	2,868	2,176	10,819
Neighbourhoods as a percentage of Council	36%	24%	19%	27%

* excluding Single Change Programme

Neighbourhoods Budget Revenue Savings Proposals 2014/15 to 2016/17

The Neighbourhoods Saving Proposals are broken down as follows across the four services.

Revenue Savings £000s	2014/15	2015/16	2016/17	Total
Environment & Leisure	1,078	1,600	-	2,678
Neighbourhoods	191	268	1,176	1,635

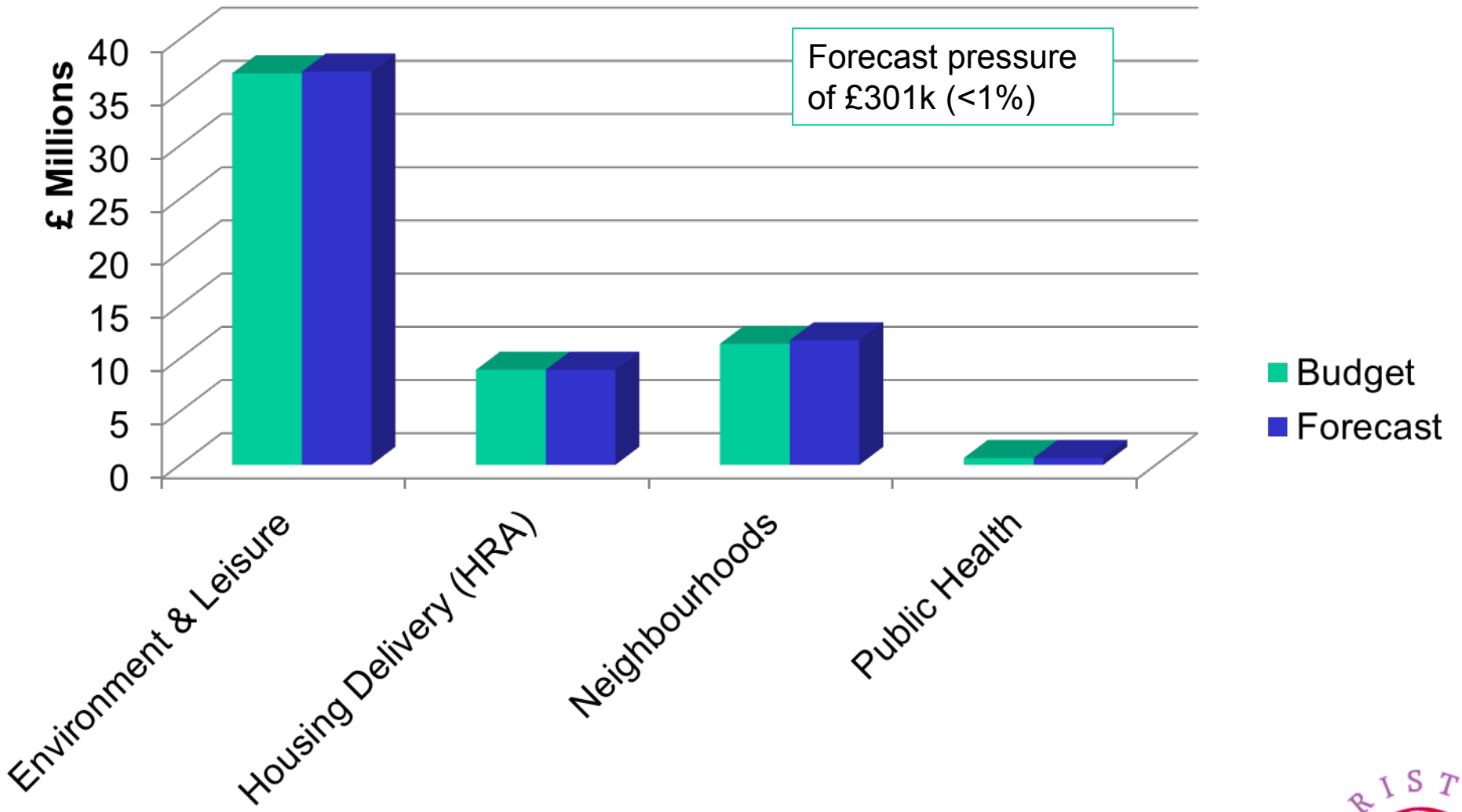
Efficiencies from Ring Fenced funds £000s	2014/15	2015/16	2016/17	Total
Housing Delivery	3,506	-	-	3,506
Public Health	1,000	1,000	1,000	3,000

	2014/15	2015/16	2016/17	Total
Totals	5,775	2,868	2,176	10,819

Neighbourhoods

REVENUE BUDGET MONITORING 2014/15

Neighbourhoods Budget Monitoring 2014/15 (Net Budget) as at Period 8 November 2014



Neighbourhoods

BUDGET KEY ISSUES

Neighbourhoods

Budget Key Issues

- Libraries for the Future consultation
- Influencing Parks and Ground Maintenance Service
- Impact of Welfare Reform and demand related HRA pressures
- HRA long term business planning
- Increasing demand for investment in preventative Public Health services

Housing Revenue Account (HRA)

Overview for Business Change and Resources Scrutiny 5/1/2015

Neighbourhoods

Housing Delivery / Finance

Slide 1

BRISTOL 2015 EUROPEAN GREEN CAPITAL

This presentation provides an overview of the Council's Housing Revenue Account.

The HRA can often be overlooked in the Council's budgets because it is self-funding and has a zero net budget. However, with an annual gross budget / turnover of £130m+ the HRA involves significant spending and activity within the council's finances

Content

- Introduction - HRA ringfence
- Self-financing
- 30 year business plan
- HRA Assumptions
- Draft rent/budget proposals
- Capital Investment

This presentation explains how the HRA is funded, what the money is spent on and the HRA's relationship with the General Fund

HRA Ring-fence

- The HRA covers the income and expenditure necessary to manage and maintain the housing stock, including major repairs and debt charges
- The HRA is a separate or ring-fenced account, meaning that funds must be kept separate from other local authority income and expenditure
- Housing rents cannot be used to subsidise council expenditure and the general council tax payer does not subsidise council housing
- The HRA budget will form part of the overall council budget to be agreed at Full Council

The HRA is legally separate from the General Fund (GF) and is a 'landlord account' – for the provision, management & maintenance of council housing.

The statutory origin of the HRA ring-fence is Section 74 of the Local Government and Housing Act 1989 with further detail in Schedule 4 of the Act, which set out how housing income and expenditure must be accounted for. The legislation was supplemented in 1995 by Circular 8/95 that provided further clarification as to whether various items of expenditure and income should be accounted for inside or outside the HRA.

This legislation in brief aims to prevent the subsidising of the HRA from the GF and vice versa, it is possible for payments between the accounts if it is for valid purposes (e.g. the HRA can pay the GF for services it provides for council tenants and the GF can pay the HRA for services it provides on behalf of the whole community).

Self-financing (1)

- For several decades, under previous Subsidy System, HRA faced constant viability challenges
- Localism Act 2011 introduced Self-Financing
- Objective of the reform:
  - To give councils the resources and flexibility to manage their housing stock for the long-term
  - To change the balance of accountability for housing services from being accountable to the Government to being accountable to tenants
- From 2012/13 councils able to fully retain rent income to plan and provide services to current & future tenants

The previous Subsidy System had been in place since the late 1980s and involved central government making assumptions about the level of rent a council received and the need to spend on homes (managing and maintaining homes). Based on these assumed figures, the government then either gave support (subsidy) to a council or (for the majority of councils) took negative subsidy from the council. In the last few years of the subsidy systems Bristol was paying c.£8m p.a. to government in Negative Subsidy. This; along with historically low rent levels, major repair needs of many homes and increasingly challenging tenancy management demands on the service; meant Bristol's HRA was in an almost constant state of bankruptcy avoidance for many years.

To keep the HRA viable (which it has to be as a ring-fenced 'business account') council housing experienced many years of cutbacks, reducing services (investment in homes, staffing to deliver services, etc.) to the bare minimum.

In 2012 the introduction of Self-Financing put the HRA on a much better financial footing

Self-financing (2)

- Responsibility for maintaining social housing stock rests with the council
- All income collected locally from rents, service charges and other sources is kept at local level
- Authorities can plan long term for investment needs of assets and service levels in consultation with tenants – requirement to produce a 30 year business plan
- Government still largely control rent levels through rent policy, and
- The government set a debt cap for each authority on borrowing for the HRA. This constrains the potential for investment through borrowing.

Self-financing takes away much of the government's 'interference' in council housing and means that budgeting and financial planning for council housing is the responsibility of the council. Self-financing ended any subsidy calculations meaning that Bristol no longer pay negative subsidy to government.

The HRA is still a landlord 'business account' and must still balance (with no subsidy from or to the GF), so long-term financial planning is needed to ensure that there is sufficient income to fund expenditure needs. Also, two key government controls remain:

1. Rent levels largely controlled by government policy
2. As part of the self-financing 'settlement' the government calculated how much debt each council housing business could support (based on income from rents and outgoings on repairs & maintenance). It then re-allocated debt between HRAs according to that calculation. It also used the calculation to set this debt figure as the absolute maximum debt that each HRA could have – meaning very little further borrowing for council housing.

30 year Business Plan (1)

- The business plan shows how, over 30 years, rental and other income will fund the investment needs of the stock, servicing of the debt and day-to-day management and repair requirements
- It is the main tool for the financial management of the HRA and will have a substantial impact on the asset management plan
- The investment in the stock will be funded from within the resources: i.e. capital receipts and revenue monies available
- The level of borrowing to be taken on within the HRA is to be capped for the foreseeable future and the use of capital receipts is subject to regulation and agreement with government.

Because of the long-term nature of the housing stock (many of Bristol's homes were built between the wars or shortly after WW2) there is a need for long-term financial planning. The need for effective business planning is further emphasised by the debt cap - meaning any 'spikes' in spending needs cannot be funded from borrowing. This means that peaks and troughs in spending needs must be planned for and managed by building up reserves (or balances brought forward) to ensure the HRA remains in overall balance.

The 30-year HRA business plan is continuously updated to ensure the longer-term implications of any budget decisions are understood (e.g. if homes are upgraded to all have showers then there will be a long-term spending need to maintain & replace those showers that will have to be planned for).

The debt cap is an absolute set figure for each HRA – it does not get updated for inflation etc. and once that cap is reached there can be no further borrowing on the HRA

There are also controls on the use of capital receipts (mostly from sales of homes under the Right To Buy) including paying some of them to central government that limits financial flexibility in the HRA

30 year Business Plan Assumptions (2)

- Dwellings (tenanted) – 27,851
- Average Rent (2014/15) - £78.84 per week
- Annual rent increase – CPI + 1% (+£2)
- Average 5 year inflation – 2-3%
- HRA debt at 01/04/14 - £244.4m
- Borrowing Cap - £257.1m
- Consolidated borrowing rate – 4.7%
- 30 year planned capital investment - £1.9bn

  (includes 2,000 new builds over the period)

The HRA business plan involves inputting year 1 figures for key issues like stock figures, inflation, rents, spending requirements, Right To Buy sales, etc. and then forecasting these over 30-years.

The HRA business plan also allows scenarios to be tested – “what if” questions – e.g. what if inflations rises, what if Right To Buy sales increase, what if arrears increase? Testing these allows us to understand risks to the HRA business and to better plan for these and ensure the HRA remains viable.

The figures above show the impact of the debt cap – the current debt on the HRA is £244m and the absolute debt cap on the HRA is £257m – that means that we can only borrow a further £13m until we have hit our cap and can borrow no more.

Rent increases in the HRA business plan are based on government policy which links annual rent increases to inflation as measured by the Consumer Price Index.

HRA Budget - Summary

HRA Revenue budget	2014/15 Budget £m	2014/15 Forecast £m	2015/16 Budget £m
Income	125.8	129.6	132.1
Spending	136.4	117.8	139.5
Deficit/(Surplus)	**10.6**	**-11.8**	**7.4**

Whilst the HRA must balance 'overall' there can be annual deficits – as long as these can be funded by reserves (i.e. 'money in the bank' from previous years' surpluses).

Due in particular to the backlog of investment needs in council homes (brought about by years of cuts during the previous subsidy system), we were planning to spend more in 2014/15 than the income received in 2014/15 and this annual deficit was to be funded from reserves. However, due to delays in delivering the capital investment programme (due to procurement issues), spend in 2014/15 is now forecast to be less than income, which will mean an annual surplus that will be added to HRA reserves.

The forecast for 2015/16 is again higher spend than income, largely due to high levels of capital investment in homes - some of which is spend carried forward from 2015/16.

HRA Income (1)

HRA Income budget	2014/15 Budget £m	2014/15 Forecast £m	2015/16 Budget £m
Rents	113.9	113.9	117.7
Service charges	7.8	7.8	7.9
Voids	-1.6	-1.6	-1.9
Usable Capital Receipts	4.5	8.1	6.9
Other Revenue Income	1.2	1.2	1.5
Total	**125.8**	**129.4**	**132.1**

An explanation of the key income sources to the HRA is set out on the next slide

HRA Income (2)

- Rents – rents are set using a Target rent for each home based on a government formula. Annual increase are also linked to government policy
- Service charges – charges for specific services such as caretaking, laundries, CCTV
- Voids – the loss of rental income due to periods when homes are empty between tenancies
- Capital receipts – largely from Right To Buy sales
- Other income – rent from garages etc.

A Target or formula rent is calculated for every social housing home- based on factors like no. of bedrooms and value – with the aim of ensuring that similar homes in similar areas should have similar rents – regardless of who their landlord is (NB this applies to social housing only, not private rented homes). Actual council rents were generally lower than their target and, since 2000 when the policy was introduced, have risen to try to meet their Target. The annual Target rent increase is set by government and is now CPI + 1%. The average council rent in 2015/16 will be £81.95 p.w.

Around 70% of tenants are on either full or partial Housing Benefit and 56% of overall rent income is received in HB.

Service charges are charged for specific ‘separate’ services only received by some tenants, e.g. caretaking, and the charge for these can only cover costs (i.e. there cannot be a ‘profit’ on service charges)

Some potential income is lost when homes are empty during change over of tenancies

The forecast is that 145 homes p.a. will be sold through the Right To Buy in 2014/15 and 2015/16 . Depending on length of tenancy, the tenant buying receives a % discount on the value of the property up to 70%. Also, a percentage of the receipt the council receives has to be paid to government, however the proportion of the receipt we can retain and re-

use is increased if we re-invest receipts to new council homes (but there are strict rules about how they can be used and it can only be 30% of the cost of a new home)

HRA Expenditure (1)

HRA Expenditure Budget	2014/15 Budget	2014/15 Forecast	2015/16 Budget
	£m	£m	£m
Reveue Repairs	33.6	34.7	34.2
Management	27.6	24.9	27.3
Service Costs	8.2	8	8.3
Bad Debt Costs	2.9	2.9	2.9
Other costs	1.3	1.3	1.4
Interest	12.2	12.2	11.8
Total Revenue Costs	**85.8**	**84**	**85.9**
Capital Investment (ex cap receipts)	**50.6**	**33.8**	**53.6**

An explanation of the key expenditure to the HRA is set out on the next slide

HRA Expenditure (2)

- Revenue Repairs – responsive repairs, cyclical maintenance, servicing and re-letting homes
- Management Costs – direct staffing, overheads and support service costs
- Service Costs – the costs of specific services to tenants
- Debt costs – interest payments on the £245m debt
- Bad debts – represents 2.5% of gross rent
- Capital – investment in existing and new homes

The majority of spend on the HRA is direct spending on the repair, maintenance and improvement of existing homes (and building new homes where there is sufficient income 'spare' to fund this, after our 'duty' to ensure that the homes and services for existing tenants are funded).

Management and service costs are the next biggest area of spend – the cost of providing services to tenants and their homes including tenancy management, rent and debt advice, caretaking, etc.

The interest payments on the debt of £145m on the HRA are a relatively low, but absolutely essential cost to the HRA. Money could be spent on paying off some debt (and therefore lowering future interest payments) but most loans to the HRA are long-term loans an low fixed rates so this is not our current business approach.

Provision is made for bad debt – income we do not expect to receive and is 'written off'. This is 'old' current tenants arrears where the chances of the tenants paying are very low or old former tenants arrears.

GF Charges to HRA

- All recharges must comply with the HRA ring-fence rules
- The HRA can pay the GF for services it provides for council tenants
- Charges are grouped in two types:
  - (i) Central Overheads based on general apportionment, e.g. headcount
  - (ii) Specific Charges based on actual cost of providing the service.

The ring-fencing rules allow for the HRA to 'buy' services from the council – provided these are legitimate services needed to run council housing. Therefore the GF recharges the HRA for the provision of these services.

Recharges are either general overheads that the HRA incurs as being part of the wider council – e.g. HR, Finance, ICT. These are generally based on a relatively simple split of costs (e.g. the HRA's share of HR costs is based on the HRA's share of the council overall staffing numbers),

The GF also recharges the HR for specific services it provides that HRA purchases on behalf of tenants. These are set out in more detail on the next slide but calculation of the charge for these is often more complex as it needs to be transparent and based on the actual cost of the service. This is particularly the case for the cost of any service provided by the GF to the HRA that is then specifically recharged to tenants as a Service Charge – e.g. Caretaking. This is because tenants have the right to scrutinise the costs of and charges for those services.

GF Charges to HRA 2014/15 (2)

	£'000
Central Recharges (Finance, ICT, HR, corporate managemen etc)	5,458
Specific Charges:	
Housing Services - adaptations, rehousing, ASB	2,283
Customer Services	1,442
Neighbourhoods - Grounds Maintenance	1,256
Neighbourhoods - Waste Services	445
Neighbourhoods - Emergency Control	227
Neighbourhoods - Pest Control	200
Legal Charges	440
Property Services	200
Other	374
Total	**12,325**

The current specific recharges for services provided to the HRA from the GF total just under £7m

Because of restructuring and moves within the council (e.g. Rents to ICS, Caretaking to E&L) there will be further recharges to the HRA from the GF in 2015/16 in addition to those

HRA Reserves

31/03/13 £m		31/03/14 £m	31/03/15 £m
2.4	General Reserves	4.3	4.3
39.0	HRA Balances	45.3	50.4
4.4	Major Repairs/Capital Reserve	5.3	5.3
45.8	**Deficit/(surplus)**	**54.9**	**60.0**

As explained earlier, the HRA must balance overall but to allow for long-term planning reserves can be built up in one year and carried forward to help fund higher expenditure needs in another year.

The HRA business plan is used to identify and plan for the peaks in spending need (for example periods when due to the age of stock major investment in homes is needed)

Our current 30-year business plan shows we will use up these HRA reserves to fund our capital investment programme to existing and new homes in the next 10-years

These reserves are covered by the same ring-fencing rules as the rest of the HRA – i.e. they can only be used for legitimate 'landlord' activity.

Some councils did try to exploit a loophole in the HRA ring-fencing rules last year to move HRA surpluses to help fund a shortfall in their GFs. However, the government has now closed this loophole, has reprimanded those councils who moved HRA reserves and warned it may force them to move them back to their HRAs