

## EXETER CITY COUNCIL

### SCRUTINY COMMITTEE – COMMUNITY 15 JANUARY 2013

#### HOUSING REVENUE ACCOUNT ESTIMATES 2013-14

## 1. INTRODUCTION

- 1.1 This report sets out the Housing Revenue Account (HRA) estimates for 2013-2014 and the revenue estimates for the Council's own build schemes for 2013-2014. Please also refer to Appendix 1.
- 1.2 This report outlines the strategic framework within which the estimates have been prepared, changes in accounting practices which affect all budgets and detailed reasons for any significant changes in the Management Unit estimates.

## 2. BUDGET FRAMEWORK FOR THE HRA

- 2.1 The estimates include assumptions for pay, general inflation and income as follows:

|                     |                           |
|---------------------|---------------------------|
| • Pay Award         | 1.0%                      |
| • Pay – Increments  | 0.5%                      |
| • Electricity       | 8.0%                      |
| • Gas               | 20.0%                     |
| • Oil               | 12.0%                     |
| • Water             | 5.1%                      |
| • Insurance         | 3.0%                      |
| • Rates             | 2.0%                      |
| • Fuel              | 6.0%                      |
| • General Inflation | 0.0% - see para 2.2 below |
| • Income            | 2.5%                      |

- 2.2 As a means of finding efficiency savings many non-pay budgets will again not be fully increased for inflation. There will be some exceptions to this in particular where there are ongoing contractual arrangements in place and where the Council has to meet the full price increase e.g. insurance and fuel. Recently released figures show that the rate of Consumer Prices Index (CPI) inflation in the UK increased to 2.7% during October, up from a rate of 2.2% the month before.
- 2.3 With regard to interest rates, the Bank of England has put the base rate of interest on hold at only 0.5% since March 2009. Many analysts are predicting that interest rates could remain at this historic low throughout 2013-14, including our own Treasury Management Advisors. The low levels of interest rates affect the City Council in a number of ways. On the negative side the Council has to assume lower investment returns on cash deposits in comparison with previous years. The likelihood is that investment returns will continue to be low. Conversely the low interest rates also mean that the cost of borrowing is much less than it has been in the past.
- 2.4 **HRA SELF-FINANCING**  
The Government abolished the Housing Revenue Account subsidy system and introduced self-financing in April 2012. Self-financing is intended to put all local authorities in the position where they can support their own stock from their own income, based upon the affordability of a 30 year business plan.

The new self-financing system provides a clearer relationship between the rent a landlord collects and the services they provide.

## 2.5 **REGULATORY FRAMEWORK**

The HRA is framed by the Local Government and Housing Act 1989. This Act created the ring-fence and the structure within which the HRA operates and covers the detailed operation of the HRA, including the credits and debits which make up the account.

## 2.6 **SOCIAL RENT POLICY**

Rent convergence with the housing association sector is expected to be achieved by 2015-16, in accordance with the Government's social rent policy. Rents in respect of council dwellings have therefore been calculated by applying an annual inflationary increase of 3.1% plus a convergence factor to reflect the number of years to rental convergence. It is anticipated that the average annual rent increase for 2013-14 will be 6%, which is £4.05 per week over 52 weeks.

## 2.7 **HRA CAPITAL PROGRAMME**

The HRA Capital Programme for 2013-14 is £8.530m with an estimated £0.56m of works carried forward from 2012-13, bringing the total to £9.090m for next financial year.

A list of the proposed new schemes for this Committee is attached at Appendix 2.

2.8 The amount that the HRA is budgeted to provide in support of the capital programme in 2013-14 is £7.224m. This consists of £5.037m in Revenue Contributions to Capital (RCCO) and £2.187m set aside in the Major Repairs Reserve.

A further £1.866m will need to be met from capital reserves in order to finance the full £9.090m HRA Capital Programme, as the authority is unable to take on additional borrowing.

## 2.9 **HRA DEBT**

Although the HRA is now self-financing, the Government have put a limit on the amount of borrowing the authority can have for the purposes of the HRA, called the 'debt cap', due to the current fiscal position - even if the borrowing is affordable by the HRA.

The debt cap is £57,882,413, which comprises the settlement payment of £56,884,000 plus £998,413 borrowing undertaken before the end of the subsidy system for new build schemes built under contract with the Homes and Communities Agency.

In January 2012 Executive approved a 50 year maturity loan plan for HRA debt. The authority's HRA debt will therefore remain at the 'debt cap' until the loan matures in 50 years time, with no headroom for additional borrowing.

## 2.10 **FEES AND CHARGES**

The changes in respect of 2013-14 Fees and Charges for Housing are included at Appendix 3.

## 3. **KEY HOUSING REVENUE ACCOUNT BUDGET CHANGES PROPOSED FOR 2013-14**

3.1 The proposed budgets reflect a combination of budget increases and savings. The key changes, by management unit, are as follows:

## 85A1 **MANAGEMENT**

The estimates for pay have reduced to reflect the outcomes of the Senior Management Review, the voluntary redundancies of four members of staff and a reduction in the number of staff in the superannuation scheme.

The estimates for pay also reflect the appointment of a temporary Asbestos Officer in order to inspect common areas, in accordance with statutory requirements. Long term arrangements for the inspection of asbestos in common areas will be identified as part of the outcomes of the Systems Review of Property Asset Maintenance.

Budgetary provision has also been made for a stock condition survey to be undertaken for 25% of all council dwellings, in order to better inform future asset management plans.

The estimates for support service recharges have significantly reduced in 2013-14 due to a combination of factors; reduced administration costs following formation of the Corporate Support Unit, a lower recharge in respect of management following the Senior Management Review and a reduction in the recharge from the Contracts Unit.

Conversely, the Contracts Unit recharge to the HRA Capital Programme has increased, as more of their time will be required to help facilitate delivery of the increases to the kitchen and bathroom replacement programmes.

#### **85A3 SUNDRY LANDS MAINTENANCE**

There has been a minor increase of £3k in the budgeted cost of this management unit compared to 2012-13, of which £1k relates to an inflationary increase.

The cost of the Garden Assistance Scheme has slightly increased, as the scheme has taken on the regular maintenance of more gardens. Garden assistance is provided to help the vulnerable, elderly and disabled maintain their gardens.

#### **85A4 REPAIRS FUND CONTRIBUTION**

A £4.729m Repair and Maintenance Programme has been budgeted, which provides for the annual repairs and maintenance required to support the number of properties currently held.

This represents a £700k increase compared to 2012-13, of which £540k relates to the transfer of certain works from the capital programme as they are deemed to be revenue in nature, such as asbestos surveys, asbestos removal and maintenance of UPVC windows. The remaining £160k relates to an increased budget for repairs to empty properties, increased service contract costs and additional budgets for other minor works.

A significant increase to the budgeted Revenue Contribution to Capital (RCCO) has also been made to help finance the proposed £9.090m HRA Capital Programme, following Executive approval in September 2012 to increase the kitchen and bathroom replacement programmes.

However, the increased RCCO has been compensated by the removal of the £3.666m Major Repairs Allowance (MRA). The MRA was previously debited to this management unit, as it was the amount that central government determined each local authority should set aside to meet the ongoing capital costs of maintaining their housing stock.

Under self-financing there will no longer be an annual MRA, instead each local

authority will be required to make a provision for depreciation to reflect the cost of housing assets used in the financial year, such as dwellings and garages. This is explained in more detail in management unit 85A6, below.

#### **85A6 CAPITAL CHARGES**

The budget reflects the requirement to charge depreciation in respect of HRA assets, which comprise; dwellings, garages, vehicles, plant and equipment.

Under self-financing Councils are required to set aside some of their income each year into the Major Repairs Reserve, in order to ensure appropriate provision is made for financing future capital works.

The minimum amount to be set aside must now equal the Council's annual depreciation charge, as this should reflect the capital maintenance expenditure that, on average, needs to be spent each year to maintain assets in a steady state.

#### **85A8 RENTS**

The budget for rental income from council dwellings has increased by £1.4m which reflects the increases necessary to achieve the Government's social rent reforms, as explained in paragraph 2.7.

However, the provision for rent lost in respect of empty properties has been increased by £220k as it is anticipated that there may be a higher turnover of tenants as a result of the welfare reform changes.

#### **85B2 INTEREST**

The budget for interest payable on the £56.884m loan with the Public Works Loan Board has increased by £64k, in order to meet the fixed annual interest payments on the 50 year maturity loan.

This increase has been partially offset by an increase in investment interest income, which is earned on HRA balances; a prudent approach has been taken in respect of interest paid to the HRA. (see paragraph 2.3 above)

#### **85B4 MOVEMENT IN HRA WORKING BALANCE**

A surplus of £1.7m is budgeted to be achieved in 2013-14, which will be transferred to the HRA Working Balance. By the end of 2013-14 it is projected that the HRA Working Balance will stand at £7.5m.

### **4. BUDGET FRAMEWORK FOR THE COUNCIL'S NEW BUILD SCHEMES**

4.1 The Council's 21 new properties at Rowan House and Knights Place form part of the overall Housing Revenue Account, but separate income and expenditure budgets are maintained in order to ensure that they are self-financing.

4.2 The 2013-14 revenue estimates in respect of the new build schemes are set out within Management Unit 85B5, please refer to Appendix 1.

4.3 The key changes are as follows:

#### **85B5 COUNCIL OWN BUILDS**

After deducting management and maintenance costs for the twenty one new

properties from the projected rental income, it is anticipated that Rowan House and Knights Place will make a budgeted surplus of £6K and £46k respectively.

However, interest costs of £8k are projected to be payable in respect of the borrowing that was required to finance the capital cost of building the new properties, based upon a short term borrowing rate of 0.80%, and depreciation of £10k has been charged in respect of dwellings.

The budgeted net surplus during 2013-14 is therefore £34k. This surplus will be transferred to the Council Own Build Working Balance in order to provide for future major repairs, debt repayment or to support future financial years with a budget deficit.

- 5. RECOMMENDED** that Scrutiny Committee – Community supports the estimates for 2013-14 and recommends approval at the Special Meeting of the Council on 26 February 2013.

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Local Government (Access to Information) Act 1985 (as amended)  
Background papers used in compiling this report

None