

REPORT TO: SCRUTINY COMMITTEE - COMMUNITY
DATE OF MEETING: 21 January 2015
REPORT OF: Assistant Director Finance
TITLE: Housing Revenue Account Estimates 2015-16

Is this a Key Decision?

Yes

Is this an Executive or Council Function?

Council

1. What is the report about?

This report sets out the proposed revenue and capital estimates for 2015-16 in respect of the Housing Revenue Account (HRA) and Council Own Build Sites.

2. Recommendations:

That Members of Scrutiny Committee – Community support the estimates for 2015-16 and recommends their approval at the Special Meeting of the Council on 24 February 2015.

3. Reasons for the recommendation:

The HRA is a record of income and expenditure relating to an authority's own housing stock. Local housing authorities have a statutory duty to keep an HRA in accordance with proper accounting practices, to set an annual budget and to review the account throughout the year.

4. What are the resource implications including non financial resources

The financial resources required to deliver both housing services to Council tenants and to invest in new and existing housing stock during 2015-16 are set out in the body of this report.

5. Section 151 Officer comments:

This report has been prepared on behalf of the Section 151 Officer to set out the revenue and capital estimates for 2015-16 in respect of the Housing Revenue Account and Council Own Build Sites.

6. What are the legal aspects?

The Local Government Act 2003 places a duty on authorities to set robust estimates, maintain adequate reserves and to monitor the budgets and this applies equally to the HRA as to the General Fund.

The Housing Revenue Account is also 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 (income) and debits (expenditure) which make up the account.

7. Monitoring Officer Comments:

8. Report Details:

BUDGET FRAMEWORK FOR THE HRA

8.1 SELF-FINANCING

Since April 2012, the Council's HRA is expected to be self-financing. Thus all income collected locally from rents, service charges and other sources are kept at a local level to deliver housing services to tenants and to maintain the housing stock.

8.2 ANNUAL BUDGET SETTING

Budgets are revisited each year to make amendments for assumptions made on stock levels, interest rates, inflation and other changed circumstances.

8.3 INFLATION

An overall allowance of £404,190 has been set aside for inflation within the HRA. The inflationary increases allowed in the budgets are:

Pay award	1%
Pay – Increments	0.5%
Electricity	3%
Gas	2.8%
Water	0%
Insurance	3%
Rates	2.8%
Fuel	5%
General Inflation	0%
Income (except dwelling rents)	2.5%

General inflation has again been held at zero; however, where there are contracts in place, inflation at around the Consumer Price Index (CPI) has been added.

8.4 INTEREST RATES

In respect of interest rates, next year's budget reflects the likelihood that whilst the base rate may remain low, it is likely that the cost of borrowing will increase and the Council may begin to take out borrowing over a longer time-frame as a result. However, this only affects the borrowing attributable to the original Council Own Build sites; Rowan House and Knights Place, as the HRA has fixed the interest rate payable on its 50 year maturity loan with the Public Works Loan Board (PWLb).

8.5 SOCIAL RENT POLICY

In announcements made at Budget 2013 and in the 2013 Spending Round, the Government signalled changes to rent policy for social housing.

Under the new policy, the majority of existing rented properties in the social sector will continue to be let at social rent, with the Government confirming that, from 2015-16, rents should increase by no more than the Consumer Price Index (CPI) inflation + 1% annually, for ten years.

For 2015-16 this represents a 2.2% rent increase resulting in an average rise of £1.65 per week over 52 weeks.

A separate report is being presented to this committee in respect of setting council dwelling rents for 2015-16, which provides more detail.

8.6 KEY HOUSING REVENUE ACCOUNT BUDGET CHANGES PROPOSED FOR 2015-16

The table below sets out the key changes between the budgets for the current financial year and the draft estimates for 2015-16. Please also refer to Appendix 1.

Movement	£	Detail
Budgeted Deficit for 2014-15	£786,550	
Inflationary increases	£404,190	As explained in paragraph 8.3
Increased budget for Management	£178,520	<ul style="list-style-type: none"> • Reflects the withdrawal of Supporting People subsidy in respect of older person's accommodation as at 31 March 2015. The reduction in income has been partially offset by savings in employee costs following the anticipated end of the Neighbourhood Warden contracts • The budgets also include a provision for implementing mobile working in housing to aid data collection and communication when officers are away from the office • Budgetary provision has been made for a tenant and leaseholder conference to be held and a tenant satisfaction survey to be undertaken during 2015-16 • Extensive training will be undertaken following the restructure of housing services and this has been factored in to the budgets for next financial year
Increased budget for Housing Customers	£139,220	<ul style="list-style-type: none"> • Employee costs reflect the formation of a new Lettings and Leasehold Team following the restructure of housing services. Budgets to be managed by this team have also been transferred to this management unit including the Downsizing Scheme • The budgets also reflect the transfer of the Rent Recovery Officers to the One View of Debt Team which has resulted in savings in employee costs but a corresponding increase in support service recharges • Increased admin fee income from Right to Buy sales are expected for 2015-16 as the Government announced plans to reduce the eligibility period from 5 to 3 years
Reduced budget for Housing Assets	(£66,770)	<ul style="list-style-type: none"> • Employee costs have reduced following the transfer of the Downsizing Officer to the new Lettings and Leasehold team and a reduction in the budgeted costs of agency staff following the housing restructure

		<ul style="list-style-type: none"> • Budgetary provision has been retained for additional agency staff (surveyor and quantity surveyor) to help manage the damp ingress contract, as agreed by Executive on 16 September 2014 • The Downsizing Scheme budget has transferred to the Housing Customers management unit • Budgetary provision has also been made for consultants to undertake a stock condition survey in order to better inform asset management plans
Reduced budget for Sundry Land Maintenance	(£19,390)	<ul style="list-style-type: none"> • The cost of the Garden Assistance Scheme has reduced following re-tender of the contract with effect from April 2014
Increased budget for Repairs and Maintenance Programme	£1,631,202	<ul style="list-style-type: none"> • The most significant change to the Repairs and Maintenance Programme for 2015-16 relates to the inclusion of a £2.1m budget for resolving damp ingress to council dwellings, as agreed by Executive on 16 September 2014 • The budget for re-pointing council dwellings has increased by £300k in accordance with updated stock condition data • The budget for external painting to flats has increased in order to allow the works to be undertaken on a 25 year cyclical programme • The budget for electrical testing to dwellings has increased in order to provide for tests to be undertaken in accordance with statutory guidelines <p>These increases have been partially offset by other budget reductions:</p> <ul style="list-style-type: none"> • The budget for repairs to void properties has reduced to reflect a reduction in the average cost per property. This is partly attributable to the formation of a dedicated voids team to reduce void times and control costs and pre-void inspections • The removal of low level asbestos is now undertaken within the general maintenance contract which has resulted in a reduction to asbestos removal costs • Significant savings have been achieved in the cost of service contracts, in particular in respect of the gas servicing contract following a move to a fixed fee comprehensive cover contract
Reduced Revenue	(£423,270)	<ul style="list-style-type: none"> • The amount of revenue monies required towards financing the HRA capital programme is expected

Contribution to Capital		to reduce from £6.2m in 2014-15 to £5.8m in 2015-16. Despite the reduction, the revenue contribution to capital remains substantial due to the continued investment in COB Wave 2, in particular the re-development of Rennes House Car Park and completion of new social housing at Newport Road.
Increased budget for Capital Charges	£127,980	<ul style="list-style-type: none"> This represents an increased depreciation charge in respect of HRA assets including; dwellings, garages, IT, vehicles and plant and equipment. <p>Depreciation is a real cost to the HRA as it represents the minimum amount of revenue monies to be set aside in the Major Repairs Reserve in order to provide for future capital works and help maintain assets in a stable condition.</p>
Increased income budget in respect of Rents	(£570,550)	<ul style="list-style-type: none"> The budget for rental income from council dwellings has increased by £560k which reflects increases in-line with the Government's new social rent policy for 2015-16, as explained in paragraph 8.5.
Interest	£1,500	<ul style="list-style-type: none"> No significant budget variances
Budgeted Deficit for 2015-16	£2,189,182	

8.7 MOVEMENT IN HRA WORKING BALANCE

The proposed budgets for 2015-16 indicate that a total of £2,189,182 will need to be taken out of the HRA Working Balance in order to meet the budgeted deficit. The impact on the HRA Working Balance is set out below.

Please also refer to Appendix 3 which sets out the total forecast HRA capital resources over the next 3 years, of which the HRA working balance forms a significant part.

Movement on HRA Working Balance	£
Estimated HRA Working Balance, as at 1/4/15	£5,671,123
Budgeted Deficit for 2015-16	(£2,189,182)
Balance resolved to be retained (HRA contingency)	(£3,000,000)
Total Forecast Balance Available, as at 31/3/15	£481,941

8.8 HRA CAPITAL PROGRAMME

The HRA Capital Programme for 2015-16 is £11.537m, which comprises:

HRA Capital Investment	£
Capital investment in existing stock	£6,634,650

Capital investment in the provision of new council homes	£4,902,843
Total HRA Capital Programme 2015-16	£11,537,493

In terms of investment in existing stock the proposed budgets for 2015-16 include the following:

- 100 boiler replacements
- 200 programmed kitchen replacements
- 332 programmed bathroom replacements
- Refurbishment of 4 LAINGS properties
- 250 fire door replacements

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

8.9 HRA CAPITAL FINANCING

The proposed HRA Capital Programme for 2015-16 will be financed as follows. Please also refer to Appendix 3 which sets out the impact on capital resources available to the HRA over the next 3 years.

HRA Capital Finance	£
Major Repairs Reserve	£3,659,828
Revenue Contribution to Capital	£5,771,928
Capital Receipts	£ 500,000
Commuted sums for St Loyes Extra Care Scheme	£1,605,737
Borrowing	£0
Total HRA Capital Financing 2015-16	£11,537,493

8.10 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'. For Exeter City Council, the debt cap is £57,882,413.

As set out below, the Council already has debt up to its 'Debt Cap' and therefore has no headroom to take on any additional borrowing in respect of the HRA.

HRA Debt	£
Settlement Payment to end Subsidy System	£56,884,000
Borrowing undertaken to finance the construction of COB Wave 1	£998,413
Total HRA Debt	£57,882,413

8.11 FEES AND CHARGES

The proposed Fees and Charges for Housing in 2015-16 are included at Appendix 4.

9. BUDGET FRAMEWORK FOR THE COUNCIL'S OWN BUILD SCHEMES

The Council's own build 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.

The main budget variations for 2015-16 are detailed below, please also refer to Appendix 5.

Movement	£	Detail
Budgeted Surplus for 2014-15	(£22,670)	
Inflationary increases	£190	
Other Budget decreases	(£15,320)	The snagging issues at Knights Place are expected to be fully resolved in 2014-15. The budgets for 2015-16 therefore reflect a rise in rental income as all units should be available for letting.
Budgeted Surplus for 2015-16	(£37,800)	

10. How does the decision contribute to the Council's Corporate Plan?

The Housing Revenue Account contributes to two key purposes, as set out in the Corporate Plan; help me find somewhere suitable to live and maintain our property assets.

11. What risks are there and how can they be reduced?

It is not permissible for the HRA to go into an overall financial deficit position. In setting the annual budget it is important to ensure that an adequate level of HRA balances is maintained as a contingency against risks.

This risk is mitigated by the resolution that the HRA working balance should not fall below £3,000,000.

12. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

No impact

13. Are there any other options?

No

Assistant Director Finance

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

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