

REPORT TO: SCRUTINY COMMITTEE - COMMUNITY
DATE OF MEETING: 19 January 2016
REPORT OF: Assistant Director Finance
TITLE: Housing Revenue Account Estimates 2016-17

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 2016-17 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 2016-17 and recommends their approval at the Special Meeting of the Council on 23 February 2016.

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 2016-17 are set out in the body of this report, but have been constrained by the significant reduction in the level of resources available for housing following the Government's unexpected policy change in respect of social housing rents, as explained in paragraph 8.5.

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 2016-17 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:

This report raises no concerns for the Monitoring Officer.

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 £425,810 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	1.5%
Gas	1.5%
Water	0%
Insurance	5%
Rates	1.2%
Fuel	0%
General Inflation	0%
Income (except dwelling rents)	1.5%

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

On 8 July 2015 the Chancellor announced in the Summer Budget that local authorities would be required to reduce rents in social housing in England by 1% a year for 4 years.

This was an unexpected policy change, as local authorities had previously been given assurance that rents would rise by Consumer Price Index inflation (CPI) + 1% for the ten years; 2015-16 to 2024-25. In overall terms, the 1% reduction in rents is expected to lose the HRA £7.9 million over the next 4 years compared to previous income projections.

For 2016-17 this will result in an average reduction of £0.77 per week, over 52 weeks, per property.

A separate report is being presented to this committee in respect of setting council dwelling rents for 2016-17, which provides more detail.

8.6 KEY HOUSING REVENUE ACCOUNT BUDGET CHANGES PROPOSED FOR 2016-17

The table below sets out the key changes between the budgets for the current financial year and the draft estimates for 2016-17. Please also refer to Appendix 1.

Movement	£	Detail
Budgeted Deficit for 2015-16	£2,189,182	
Inflationary increases	£425,810	As explained in paragraph 8.3
Increased budget for Management	£2,010	<ul style="list-style-type: none"> • Overall, a minor change in respect of management costs, but the budgets reflect; • A further 12 month extension of the Neighbourhood Warden Service, whilst alternative models for providing support to older residents are evaluated. A separate report is being presented to this committee, which provides more detail. • Employee costs reflect the HRA's contribution to a new 18 month Partnership Delivery Officer post to support the work of the Early Help for Families Programme. • Budgetary provision has been made for a tenant and leaseholder conference to be held along with a new budget for community development projects. • The restructure of Property Services has resulted in the transfer of four Electricians and a Mechanical and Electrical Engineer directly into the HRA to better reflect that they solely undertake work in respect of council dwellings. This has resulted in the recharge from Property Services ceasing in 2016-17 against this management unit.
Increased budget for Housing Customers	£24,080	<ul style="list-style-type: none"> • Minor increase in budget provision for communal lighting electricity • Rise in employer's national insurance costs following the end of the National Insurance rebate.
Increased budget for Housing Assets	£285,230	<ul style="list-style-type: none"> • Employee costs have increased following the transfer of four Electricians and a Mechanical and Electrical Engineer into the HRA following the restructure of Property Services. A compensating saving has been made in the removal of the recharge from Property Services in respect of these staff. • The budgets factor in the cost of an extensive stock condition survey during 2016-17 in order to

		<p>underpin future asset management plans and to update the HRA 30 year Business Plan.</p> <ul style="list-style-type: none"> Budgetary provision has also been made for the decant costs associated with the refurbishment of seventeen LAINGS properties in the Cowick area, of which seven are already empty and ten are currently occupied.
Increased budget for Sundry Land Maintenance	£98,250	<ul style="list-style-type: none"> It is projected that the number of trees on HRA communal land requiring annual inspections and major works will significantly increase over the next 5 years. The budget for annual inspections and essential works has therefore been increased. Similarly, a new budget provision for managing trees in residential gardens has also been set aside. <p>Both these budget provisions have been triggered by a review and risk assessment of trees within Exeter and plotting those that are located on HRA land.</p>
Decreased budget for Repairs and Maintenance Programme	(£2,402,432)	<ul style="list-style-type: none"> The most significant change to the Repairs and Maintenance Programme for 2016-17 relates to the removal of the one-off £2.1m budget for resolving damp ingress to council dwellings, as works under this contract are due to complete in January '16. <p>The other key changes are:</p> <ul style="list-style-type: none"> The budget for re-pointing council dwellings has decreased by £287k. The commencement of a programme of re-pointing works is pending updated stock condition data. The budget for external painting to council dwellings has increased in order to allow the works to be undertaken on a 7 year cyclical programme. 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 budget for asbestos removal costs has increased as such works have been prioritised on the basis of health and safety.
Reduced Revenue Contribution to Capital	(£1,082,855)	<ul style="list-style-type: none"> The amount of revenue monies required towards financing the HRA capital programme is expected to reduce from £5.8m in 2015-16 to £4.7m in 2016-17.

		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.
Increased budget for Capital Charges	£172,580	<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>
Decreased income budget in respect of Rents	£354,770	<ul style="list-style-type: none"> The budget for rental income from council dwellings has decreased in accordance with the Welfare Reform and Work Bill, which requires social landlords to reduce rents payable by individual tenants by 1% each year between 2016-17 and 2019-20.
Interest	(£22,500)	<ul style="list-style-type: none"> Additional interest receivable in respect of HRA balances (working balance, capital receipts and major repairs reserve).
Budgeted Deficit for 2016-17	£44,125	

8.7 MOVEMENT IN HRA WORKING BALANCE

The proposed budgets for 2016-17 indicate that a total of £44,125 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.

Movement on HRA Working Balance	£
Estimated HRA Working Balance, as at 1/4/16	£5,952,596
Budgeted Deficit for 2016-17	(£44,125)
Supplementary budget to be requested for Mobile Working from 2015-16	(£50,000)
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Total Forecast Balance Available, as at 31/3/16	£1,858,471

8.8 HRA CAPITAL PROGRAMME

The HRA Capital Programme for 2016-17 is £16.117m, which comprises:

HRA Capital Investment	£
Capital investment in existing stock	£7,746,635

Capital investment in the provision of new council homes	£8,245,967
Information Technology	£125,000
Total HRA Capital Programme 2016-17	£16,117,602

In terms of investment in existing stock the proposed budgets for 2016-17 include the following:

- 100 kitchen replacements
- 100 bathroom replacements
- Refurbishment of 17 LAINGS properties, phased over the next 2 years
- 300 fire door replacements
- Essential health and safety works to improve footpaths and boundary walls

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 2016-17 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	£6,526,621
Revenue Contribution to Capital	£4,689,075
Capital Receipts	£ 500,000
Commuted sums for St Loyes Extra Care Scheme	£3,701,906
Department of Health grant for St Loyes Extra Care Scheme	£ 700,000
Borrowing	£ 0
Total HRA Capital Financing 2016-17	£16,117,602

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 2016-17 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 2016-17 are detailed below, please also refer to Appendix 5.

Movement	£	Detail
Budgeted Surplus for 2015-16	(£37,800)	
Inflationary increases	£140	
Other Budget decreases	(£360)	The requirement to reduce rents by 1% also applies to the Council Own Build sites, however the reduction in rental income has been offset by all units at Knights Place being available for letting as snagging issues have now been resolved.
Budgeted Surplus for 2016-17	(£38,020)	

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.

A key risk that officers are aware of relates to the High Value Assets Levy, which may require the Council to make a payment to the Government in respect of its 'high value' housing. Due to the uncertainty regarding the definition of 'high value' and calculation of the levy payable, it is considered prudent to increase the HRA contingency from £3,000,000 to £4,000,000 over the medium term.

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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