

EXETER CITY COUNCIL

SCRUTINY COMMITTEE – COMMUNITY 18 JANUARY 2011

ESTIMATES 2011-12 FOR HOUSING REVENUE ACCOUNT

1. INTRODUCTION

- 1.1 This report sets out the Housing Revenue Account (HRA) estimates for 2011-2012 and, for the first year, revenue estimates for the Council's new build schemes for 2011-2012.
- 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% (to cover any pay award/increments)
• Utilities	3.0%
• Insurance	3.0%
• Rates	4.5%
• Fuel	3.0%
• General inflation	1.0%
• Income	3.0%
• Interest on Investments	1.5%

- 2.2 There has been no offer of an increase in pay for 2010/11. Unions have submitted a pay claim for 2011/12 of £250 for all employees, on which the Local Government Employers are consulting Council's. Given the Government's announcement of a pay freeze for employees earning more than £21,000 and an increase of £250 for those earning less, it is felt prudent at this stage to budget next year for pay increases and increments totalling not more than 1.0%.

2.3 HRA Subsidy Determination

The draft HRA Subsidy determination for 2011-12 has been increased by the following in line with the number and types of dwellings as at 1 April 2010:

• Maintenance	2.81%
• Management	2.95%
• MRA	4.13%
• Rent (average)	5.29%

- 2.4 The Department for Communities and Local Government (DCLG) have proposed that rent convergence with the housing association sector will take place within 5 years, by 2015-16; this date will be reviewed for future years as part of the wider reform of the HRA Subsidy system. Guideline rents for 2011-12 have therefore been calculated by applying RPI inflation and a convergence factor to reflect the number of years to rental convergence.

- 2.5 In net terms, the subsidy payment to the Department of Communities and Local Government has increased by some £366k in respect of the original budget for 2010-11, which reflects the rent increase. The HRA subsidy for 2011-12 now stands at £4.372m.
- 2.6 The amount that the HRA is budgeted to provide in support of the capital programme to achieve the Decent Homes Standard in 2011-12 is £2.261m with a requirement to take £587k from the working balance to support the capital programme and delay the need to borrow. This is an increase of £496k in Revenue Contributions to Capital (RCCO) over 2010-11.
- 2.7 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 UK inflation increased in October mainly reflecting changes in fuel prices. The Consumer Prices Index (CPI) measure rose to 3.2%, up from 3.1% in September. The Retail Prices Index (RPI), the alternative measure of inflation which includes housing costs, however fell slightly to 4.5%, down from 4.6% a month earlier. The Government target for the CPI measure remains at 2%
- 2.8 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. Although many analysts are predicting that interest rates could start to increase next year, in the short term they are likely to remain at their historically low levels. 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. This has also been exacerbated by the continuing lack of confidence within some parts of the banking sector. The likelihood is that investment returns will continue to be low. Conversely on the positive side, the low interest rates also mean that the cost of borrowing is cheaper than it has been in the past. However, rates are beginning to rise and this has an effect on the financial position of the Council.
- 2.9 The available capital resources for 2011-12 are £3.343 million with £2.261m funded from revenue. The Housing capital programme will be some £5.604m.
- It is unlikely that the Housing Revenue Account will need to use borrowing to fund its HRA capital programme until 2013-14. A list of the proposed new schemes for this Committee is attached at Appendix 2 on page 17.
- 2.10 The changes in respect of 2011-12 Fees and Charges for the Housing budget are included at Appendix 3 on page 19.

3. KEY HOUSING REVENUE ACCOUNT BUDGET CHANGES PROPOSED FOR 2011-12

- 3.1 The proposed budgets reflect a combination of budget increases and savings and the key changes are as follows:

85A1 MANAGEMENT

Overall, management costs have reduced by £88k compared to 2010-11.

Service charge income was de-pooled from rental income during 2010-11 and is now reflected in the management units where the corresponding expenditure is incurred. For this management unit, net service charge income of £146k is reflected in the budgets for communal grass cutting, lighting, cleaning and heating. This includes the new contract for cleaning communal areas of flats.

The budgets for employee costs reflect the restructure of Tenancy Services along with savings following the retirement of a Neighbourhood Warden.

Support service budgets have changed significantly; the main change relates to a new recharge from the Contract Unit's in respect of the legal requirement to issue energy performance certificates for each council dwelling.

Other minor budget increases have been made in respect of printing the quarterly Insight publication, a forecast 5% reduction in the Supporting People subsidy and additional legal costs in connection with anti-social behaviour.

85A3 SUNDRY LANDS MAINTENANCE

There has been a £15k reduction in the budgeted cost of this management unit compared to 2010-11.

De-pooled service charge income of £21k is now reflected within Garden Maintenance in respect of communal grass cutting.

The budget for the Garden Assistance Scheme has been increased so that a further 20 gardens can be maintained.

85A4 REPAIRS FUND CONTRIBUTION

The Repairs Fund stands at £3.6m and reflects the level of maintenance required to support the number of properties currently held. This represents a £600k reduction compared to 2010-11; however this is predominantly due to the reflection of de-pooled service charge income relating to repairs and door entry system maintenance within this management unit and projected savings in the cost of general reactive repairs following the start of a new 5 year repairs and maintenance contract on 1 October 2010.

In general the level of funding for work on communal area decorations, electrical testing, electrical repairs and painting to flats has remained at the 2010-11 level. There has also been a reduction in the funding for repairs to empty properties due to a projected lower level of voids.

There is a budgeted revenue contribution to capital of £2.261m to undertake work in respect of the capital programme within this management unit.

The Major Repairs Allowance (MRA) for 2011-12 is £3.481m, which is an increase of 4.13% compared to 2010-11.

85A6 CAPITAL CHARGES

Depreciation of HRA dwellings, garages, vehicles, plant and equipment have been calculated in accordance with Government guidelines on the bases and methods of valuation for Housing Revenue Account assets.

85A8 RENTS

As previously mentioned, service charge income was de-pooled from rents during 2010-11 and is now reflected in the management units where the corresponding expenditure is incurred.

Despite the removal of service charge income from this management unit, additional income from rents of £330k is forecast compared to last year's budget.

The increase reflects the Government's uplift of 5.1% for rent increases and the projected average number of council dwellings for 2011-12.

85B1 GOVERNMENT SUBSIDY

See paragraphs 2.3 to 2.5 above

85B2 INTEREST

Interest on mortgages reflects the projected average balance outstanding during 2011-12.

There is a reduction in interest on balances which reflects the effect of the current reduction in investment interest rates; a prudent approach has been taken in respect of interest paid to the HRA. (see 2.8 above)

85B4 MOVEMENT IN HRA WORKING BALANCE

The Working Balance will provide £587k towards the 2011-12 capital programme. It is forecast that the HRA Working Balance will be £1.934m at 31 March 2012.

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

- 4.1 Separate revenue estimates have been prepared for 2011-12 in respect of the Council's new build schemes.
- 4.2 Unlike the rest of the Council's dwelling stock, the new properties are excluded from the operation of the HRA subsidy system, following consent from the Secretary of State under Section 80B of the Local Government and Housing Act 1989. This means that the Council will be able to retain the full rental income from the new properties at Rowan House and Knights Place, but this income will need to meet the costs of managing and maintaining the properties as no government subsidy will be receivable.
- 4.3 The new properties remain within the Housing Revenue Account, but separate income and expenditure budgets will need to be maintained in order to ensure that they are self-financing.
- 4.4 Rents for the new build properties have been set in accordance with the Tenant Services Authority's guideline limit for housing association rents.

5. NEW BUILD SCHEME BUDGETS PROPOSED FOR 2011-12

The first revenue estimates for the new properties at Rowan House and Knights Place 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 £7k and £50k respectively.

However, interest costs of £15k 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 1.5%.

The budgeted net surplus during 2011-12 is therefore £42k. 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 2011/12 and recommends approval at the Special Meeting of the Council on 22 February 2011.

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