

EXETER CITY COUNCIL

SCRUTINY COMMITTEE – COMMUNITY 14 JANUARY 2014

1. INTRODUCTION

- 1.1 Attached are the draft revenue and capital estimates for 2014-15 in respect of the Housing Revenue Account and Council Own Build sites.

2. BUDGET FRAMEWORK FOR THE HRA

2.1 HRA SELF-FINANCING

Next year will be the third financial year that the HRA has operated since the introduction of self-financing in April 2012.

Self-financing enables stock holding authorities to retain the income they collect from rents for local re-investment, so that they are in a position to support their own stock from their own income.

Self-financing provides a clearer relationship between the rent a landlord collects and the services they provide.

2.2 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 (income) and debits (expenditure) which make up the account.

2.3 INFLATION

An overall allowance of £312,580 has been set aside for inflation. The inflationary increases allowed in the budgets are:

Pay award	1%
Pay – Increments	0.5%
Electricity	8%
Gas	5%
Water	5.1%
Insurance	3%
Rates	3%
Fuel	6%
General Inflation	0%
Income (except dwelling rents)	2.5%

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

2.5 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).

2.6 **SOCIAL RENT POLICY**

Rents in respect of council dwellings have been calculated in accordance with current Government guidelines for social rents, whereby rents may increase by an annual inflationary increase of 3.7% plus a convergence factor to bring local authority rents in-line with rents charged by housing associations by 2015-16.

It is anticipated that the average annual rent increase for 2014-15 will be 6%, with an average increase of £4.09 per week over 52 weeks.

2.7 **KEY HOUSING REVENUE ACCOUNT BUDGET CHANGES PROPOSED FOR 2014-15**

The table below sets out the key changes between the budgets for the current financial year and the draft estimates for 2014-15. Please also refer to Appendix 1.

Movement	£	Detail
Budgeted Surplus for 2013-14	(£1,712,160)	
Inflationary increases	£312,580	As explained in paragraph 2.3
Increased budget for Management	£468,110	<ul style="list-style-type: none"> This budget increase is predominantly due to the transfer of staff to the HRA (£430k) following the restructure of the Contracts Unit. The cost of the 'Programmed Works' team are now shown within the HRA's management costs to better reflect that they solely work for the HRA in respect of providing building surveying services, rather than being treated as a council wide support service. <p>A compensating saving has been made in the HRA Capital Programme (£350k) as the building surveyors would have previously recharged their costs to capital for their time managing the delivery of major programmes of work such as the kitchen and bathroom replacement programmes and also to General Management (£80k) for their time undertaking stock condition surveys.</p> <ul style="list-style-type: none"> The draft budgets also reflect a recharge from the Housing Development Team in respect of their time associated with the development of new council housing. For 2014-15 this includes; progressing plans for the development of Rennes House car park, development of Newport Road, Bennett Square and the former Whipton Methodist Church site and progressing COB Wave 3 sites.

		<ul style="list-style-type: none"> • The draft budgets also reflect additional staff costs in respect of a new Compliance Officer and a Pre-Void Surveyor. • Savings in respect of Tenant Participation and Liaison have also been factored into the draft budgets following Executive approval in November 2013 of a new structure for resident involvement.
Increased budget for Sundry Land Maintenance	£21,320	<ul style="list-style-type: none"> • A higher than inflation increase has been provided for in respect of the Garden Assistance Scheme, as the contract is due to be re-tendered in 2014-15. • The budgets also reflect an increase in weed spraying costs, as the number of weed control sprays of housing estate land has increased from 2 to 3 per year with additional sites added.
Increased budget for Repairs and Maintenance Programme	£1,244,050	<ul style="list-style-type: none"> • The provision for general reactive repairs to council dwellings has increased by £340k to meet current patterns of demand. • The budget for repairs to void properties has increased by £470k to reflect average repairs costs, number of void properties and continuation of the higher void standard. • Budgets in respect of routine service contracts have increased by £520k. This is predominantly due to an increased budget provision for the gas servicing contract which is due to be re-tendered and moved to a fixed fee comprehensive cover contract. As a result, the £100k annual budget for gas equipment replacements has been removed from 2014-15, as this will be covered by the new contract. <p>New budgets have also been set aside to provide for fire risk assessments and servicing/testing smoke detectors at sheltered sites.</p> <ul style="list-style-type: none"> • The budget for external painting and low maintenance repairs has been increased in order to extend the programme of works to include houses and bungalows, in addition to block of flats.

Increased Revenue Contribution to Capital	£1,006,600	<ul style="list-style-type: none"> This increase relates to the additional finance required in 2014-15 for the development of new council housing in respect of COB Wave 2, based upon the latest cash-flow projections. <p>In February 2013, Executive agreed that the HRA would finance a total of £7.5m for COB Wave 2.</p>
Increased budget for Capital Charges	£169,490	<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 ensure appropriate provision is made to provide for future capital works and help maintain assets in a stable condition.</p>
Increased income budget in respect of Rents	(£723,740)	<ul style="list-style-type: none"> The budget for rental income from council dwellings has increased by £760k which reflects the increases necessary to achieve the Government's social rent reforms, as explained in paragraph 2.6. Budgeted rental income from garages has reduced to reflect planned demolitions. Several garages sites are planned to be cleared in order to help facilitate the development of new council homes as part of COB Wave 2 and 3.
Interest	£300	<ul style="list-style-type: none"> No significant budget variances
Budgeted Deficit for 2014-15	£786,550	

2.8

MOVEMENT IN HRA WORKING BALANCE

The draft budgets for 2014-15 indicate that a total of £786,550 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 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 1/4/14	£6,327,181

Budgeted deficit in 2014-15	(£786,550)
Balance resolved to be retained (HRA contingency)	(£3,000,000)
Total Forecast Balance Available, as at 31/3/15	£2,540,631

2.9 HRA CAPITAL PROGRAMME

The HRA Capital Programme for 2014-15 is £11.995m, which comprises:

HRA Capital Investment	£
Capital investment in existing stock	£8,688,030
Capital investment in the provision of new council homes	£3,306,951
Total HRA Capital Programme 2014-15	£11,994,981

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

2.10 HRA CAPITAL FINANCING

The proposed HRA Capital Programme for 2014-15 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	£3,815,681
Revenue Contribution to Capital	£6,195,196
Capital Receipts	£1,984,104
Borrowing	£0
Total HRA Capital Financing 2014-15	£11,994,981

2.11 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

2.12 FEES AND CHARGES

The proposed Fees and Charges for Housing in 2014-15 are included at Appendix 4.

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

3.1 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.

3.2 The main budget variations for 2014-15 are detailed below, please also refer to Appendix 5.

Movement	£	Detail
Budgeted Surplus for 2013-14	(£34,070)	
Inflationary increases	£60	
Other Budget Increases	£11,340	The draft budgets reflect a projected reduction in rental income at Knights Place whilst major snagging issues are resolved. Additional interest costs are expected in respect of the £998k borrowing attributable to these sites, as explained in paragraph 2.5.
Budgeted Surplus for 2014-15	(£22,670)	

4. **RECOMMENDED** that Scrutiny Committee – Community supports the estimates for 2014-15 and recommends approval at the Special Meeting of the Council on 25 February 2014.

ASSISTANT DIRECTOR
FINANCE