

HOUSING REVENUE ACCOUNT BUDGET AND CAPITAL EXPENDITURE PROGRAMME 2014/15

1 INTRODUCTION

- 1.1 This report sets out a proposed Housing Revenue Account (HRA) budget and a proposed Housing Public Sector Capital Programme for 2014/15. Cabinet is required to recommend budgets for consideration at Council on 24 February 2014.
- 1.2 The budgets for 2014/15 are the third year of the HRA self financing system. The first £4.1m instalment of principal repayment of the settlement loan is due to be made in 2017/18 and will reduce the spending resources available in that year.
- 1.3 The proposed budgets for 2014/15 were considered by tenants at the Housing Policy Focus Group on 22 January 2014. Comments from the group will be presented orally at the Cabinet meeting.
- 1.4 The proposed HRA budget is attached as **Appendix 1**.

2 KEY ISSUES

- 2.1 Members are asked to consider a number of financial issues for 2014/15.
- 2.2 **Housing Rents**
 - 2.2.1 The report identifies a rent increase in line with the continuing adoption of DCLG proposals on rent restructuring, as approved by Cabinet on 5 December 2011.
 - 2.2.2 It is proposed that average rents are increased to £99.58 for 2014/15. The actual rise would vary by property, but would amount to an average increase of £5.40 or 5.73% over the current average.
 - 2.2.3 Moving forward from 2015/16 future rent increases are expected to be restricted by the Government to CPI + 1%.
- 2.3 **Hostels – Service Charges**
 - 2.3.1 The primary aim when reviewing and setting the service charge for hostels is to ensure that relevant costs are fully recovered from those who benefit from them. Current service charge income levels would need to be increased by 2% in order to achieve this aim.

2.4 Older Persons' Support Service – Service Charges

2.4.1 The primary aim when reviewing and setting the service charge for Older Persons' Support Service tenants is to ensure that relevant costs are fully recovered from those who benefit from them. Current service charge income levels would need to be increased by 2% in order to achieve this aim.

2.4.2 As with rents, the service charge payable by individual users varies according to their property and other factors, such as whether utilities costs are included and the level of service received.

2.5 Garage Rents

2.5.1 A garage rent increase of 50 pence per week is recommended. This equates to a 5.26% increase on the current charge of £9.50. The increase is in line with the proposed dwelling rent increase.

3 HRA INCOME 2014/15

3.1 Estimated total income for 2014/15 is £934,000 higher than the original budget for 2013/14 (despite a shorter 52 week year). The income variations from the 2013/14 approved budget are set out below:

	£000	Paragraph
Dwelling Rents	939	3.2
Non Dwelling Rents	-6	3.3
Service Charges	-20	3.4
Other Income	21	3.5
	<u>934</u>	

3.2 **Dwelling Rents (£939k)** – The proposed budget for 2014/15 includes the £1,433,000 effect of the average 5.73% rent increase proposed in paragraph 2.2 and takes account of current 2013/14 rent income estimates, which are £6,000 more than the original 2013/14 budget. It should also be noted that 2014/15 is a normal 52 week year which reduces the budget by £500k.

3.3 **Non Dwelling Rents (-£6k)** – This income is derived from garages and rents of other housing land. The proposed increase in paragraph 2.5.1 will generate £37k but this will be offset by a reduction of £14k due to the impact of a 52 week year in 2014/15 and a reduction of £29,000 to reflect current income in 2013/14.

3.4 **Service Charges (-£20k)** – Service charges are set in order to cover the costs incurred. The main reasons for the reduction are the disposal of one hostel and the change from 53 to 52 rent weeks during the year. This and other budget adjustments mean that whilst the anticipated income has fallen, it is still expected that all costs will be fully recovered.

3.5 **Other income (£21k)** – This includes a short term contract for the use of some rooms giving an increase of £26k, a £5k increase in sales administration recharges due to more Right to Buy sales, and an increase of £5k in the Shared Amenities Contribution. This is offset by a £15k reduction in Out of Hours income

which has transferred to the General Fund and £5k relating to a fall in guest room and recharge income within the Older Persons' Accommodation service.

4 HRA EXPENDITURE 2014/15

- 4.1 Budgeted expenditure for 2014/15 is £130,000 lower than the approved budget for 2013/14. The major variations are set out below:

	£000	Paragraph
Cyclical/Disabled Facilities/Reactive Maintenance	74	4.2
Supervision and Management/Rent, Rates, Taxes and other charges	179	4.3
Rent Rebates	214	4.4
Provision for Bad Debts	20	4.5
Capital Financing Costs	-80	4.6
Major Repairs Reserve	-592	4.7
Contribution to Capital supporting Housing Strategy	55	4.8
	<u>-130</u>	

- 4.2 **Cyclical/Disabled Facilities/Reactive Maintenance (£74k)** – To maintain the quality of our Housing stock it is proposed to increase the reactive maintenance budget by £91,000 to £2.45 million. The Council remains fully committed to adaptations and hence proposes an increase of £50,000 to the Disabled Facilities budget, increasing up to £509,000. The cyclical maintenance budget has been reduced by £67,000 to £1.447 million due to savings on the external decoration contract due to efficiencies and reduced works.
- 4.3 **Supervision and Management recharges/Rent, Rates, Taxes and other (£179k)** – Supervision and Management recharges are budgeted to increase by £179,000 in 2014/15. This is principally due to pay and prices increases of £70,000 and an increase of £104,000 in time allocations from Property Services, reflecting increased input to the Housing Service, particularly in the areas of Property Acquisitions and the New Developments.
- 4.4 **Rent Rebates (£214k)** – The proposed rent level of £99.58 for 2014/15 will exceed the estimated limit rent level of £98.26 used in the calculation of Government Subsidy receivable on rent rebates. This will lead to a contribution of £220k from the HRA to the General Fund to cover the subsidy shortfall. This is an increase of £214k from the 2013/14 budget but £144k of this is due to the 2013/14 budget being understated.
- 4.5 **Provision for Bad Debts (£20k)** – This has been increased by £20k to reflect recent trends and provision for anticipated additional arrears following the introduction of benefit changes in 2014/15.
- 4.6 **Capital Financing Costs (-£80k)** – The final instalment of £52k regarding premiums payable on historic early repayment of loans was paid in 2013/14. In addition Debt Management Expenses are expected to decrease by £26k, following a review of how these are allocated.
- 4.7 **Major Repairs Reserve (-£592k)** – Within the changes arising from the self financing of the HRA the Government amended the rules regarding the treatment

of depreciation of non-dwelling assets (Garages). Initially it was thought that this would result in a cost to the Housing Revenue Account and a budget was included for 2013/14 but work carried out during the 2012/13 closedown process has concluded that this budget is not now required.

- 4.8 **Contribution to Capital supporting Housing Strategy (£55k)** – Section 6 of this report sets out the proposed capital programme for 2014/15. Other than the cost of the Totton Hostel, which is to be funded from capital receipts, the programme is fully funded from revenue contributions. The £55k increase in this revenue contribution therefore reflects the non-hostel changes in the capital programme that are detailed in Section 6.

5 HRA RESERVE BALANCE

- 5.1 The HRA Reserve balance as at 1.4.13 was £5,310k, with a view that during the 2013/14 financial year expenditure would equal income, resulting in a break-even year and unchanged Reserve balance as at 31.3.14.
- 5.2 However, during 2013/14 a variety of variances have occurred (and are being forecast) which will lead to a new balance leading into 2014/15.
- 5.3 These variances are as follows:-

Dwelling rent (General) increase	76k
Dwelling rent (Hostel/OP) decrease	-69k
Non Dwellings rent (Garages) decrease	-29k
Out of Hours monitoring income decrease	-15k
New income from room hires	50k
Cyclical maintenance savings	200k
Environmental enhancements slippage	240k
1 off extension budget unused	40k
Major repairs decrease	400k
Rent rebates	-144k
Garage depreciation reinstated	<u>590k</u>
Total	1,339k
Estimated Balance as at 31.3.14	6,652k

6 USE OF HRA RESERVES

- 6.1 In 2013/14 it is proposed to set up a new reserve for future new build projects and property acquisitions, to enable available resources to be held and spent when best value opportunities arise. A working balance of £1m will be retained as the HRA reserve and the balance of resources in the current HRA reserve will be transferred to the new reserve at 31 March 14. It is currently estimated that £5.6m will be transferred to the new reserve.
- 6.2 The proposed HRA budget for 2014/15 currently shows an estimated surplus of £1.065m. This will be transferred to the Acquisitions/Development reserve.

7 CAPITAL PROGRAMME 2014/15

- 7.1 The proposed detailed Housing Public Sector capital expenditure programme and funding is set out below:

	Original 2013/14 £000	Latest 2013/14 £000	Original 2014/15 £000
Proposed Expenditure			
Environmental Enhancements	450	210	440
Major Repairs	5,048	4,648	5,143
New Build / Acquisitions	6,800	6,800	6,800
Totton Flats	665	20	645
Extension To Property	50	30	50
PV Panels	30	30	0
TOTAL	13,043	11,738	13,078
Funded by NFDC Resources			
HRA Revenue Contribution	12,378	11,718	12,433
Capital Receipts	665	20	645
TOTAL	13,043	11,738	13,078

- 7.2 The proposed capital programme for 2014/15 totals £13.078 million, an increase of £35,000 from the 2013/14 original programme. The Major Repairs budget has increased by £95k over the prior year. The Environmental Enhancements at North Milton estate has slipped by £240k as has the Totton New Build by £645k.
- 7.3 The Government introduced changes to the Right to Buy system in April 2012 primarily increasing the discounts to tenants with the intention of stimulating tenant home ownership. This has led to a marked increase in tenant interest regarding purchasing their properties and after a slow start to the 2012/13 year RTB sales have continued to increase with 20 properties sold in the first nine months of 2013/14.
- 7.4 The capital spending power of the Council is limited by the availability of usable capital receipts, the level of Government Grants, the ability to fund capital expenditure from revenue sources (HRA rents and balances) or through the use of borrowing.

8 ENVIRONMENTAL IMPLICATIONS

- 8.1 Although the services covered in this report clearly do have an impact on the Environment, this report focuses on the financial effect of the proposed HRA budgets and capital programme. There are no direct environmental implications arising from this report.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1 There are no direct crime and disorder implications arising from this report.

10 EQUALITY AND DIVERSITY IMPLICATIONS

10.1 There are no direct equality and diversity implications arising from this report.

11 TENANTS VIEWS

11.1 The Tenants' views were sought at the meeting of the Housing Policy Focus Group on 22 January 2014. They commented as follows: "Tenant Representatives acknowledge an average of 5.73% increase in the rent may be considered high, but it is still good value and it enables the Council to continue investing in their housing stock; with providing new homes and achieving Decent Home Standards."

12 PORTFOLIO HOLDER COMMENTS

12.1 The recommendations contained in this report conform to the latest government guidelines and the changes proposed are in line with other neighbouring authorities.

12.2 The third year of the self financing regime will provide significant funding for new affordable housing and this will help reduce our current housing waiting list.

12.3 The budget proposals will allow us to manage and maintain our existing housing stock to continued high standards and I support the overall proposals contained in the report.

13 RECOMMENDATIONS

13.1 That the Cabinet be asked to recommend to the Council:

- i) that the HRA budget as set out in Appendix 1 of this report be agreed;
- ii) that from 7 April 2014, an average increase in rents of 5.73% from the average 2013/14 rent level, in accordance with rent restructuring guidelines be agreed;
- iii) that from 7 April 2014, an increase of 2% in hostel service charges be agreed;
- iv) that from 7 April 2014, an increase of 2% in sheltered housing service charges be agreed;
- v) that from 7 April 2014, an increase of 50 pence per week in garage rents (plus VAT for garages let to non-Council tenants) be agreed; and
- vi) that a 2014/15 Housing Capital Programme of £13.078m, as set out in paragraph 6.1 above, be agreed.

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Background Papers:

Published documents as referred to within
this report.

HOUSING REVENUE ACCOUNT BUDGET

	2013/14 £'000	2014/15 £'000	Variation £'000	Para
INCOME				
Dwelling Rents	-24,950	-25,889	-939	3.2
Non Dwelling Rents	-765	-759	6	3.3
Charges for Services & Facilities	-720	-700	20	3.4
Contributions towards Expenditure	-46	-51	-5	3.5
Interest Receivable	-22	-28	-6	3.5
Sales Administration Recharge	-15	-20	-5	3.5
Shared Amenities Contribution	-172	-177	-5	3.5
TOTAL INCOME	-26,691	-27,625	-934	
EXPENDITURE				
Repairs & Maintenance				
Cyclical Maintenance	1,514	1,447	-67	4.2
Disabled Facilities	459	509	50	4.2
Reactive Maintenance	2,359	2,450	91	4.2
Supervision & Management				
General Management	3,461	3,504	43	4.3
Special Services	1,154	1,211	58	4.3
Homeless Assistance	72	70	-2	4.3
Sale of Council Houses	39	117	78	4.3
Rents, Rates, Taxes and Other Charges	12	14	2	4.3
Rent Rebates	6	220	214	4.4
Provision for Bad Debt	80	100	20	4.5
Capital Financing Costs	4,566	4,486	-80	4.6
Major Repairs Reserve	592	0	-592	4.7
Contribution to Capital supporting Housing Strategy	12,378	12,433	55	4.8
TOTAL EXPENDITURE	26,691	26,560	-131	
HRA OPERATING SURPLUS(-)	0	-1,065	-1,065	
Transfer to Acquisitions/Development reserve	0	1,065	1,065	