

HRA MEDIUM TERM FINANCIAL PLAN 2014-2018

Cabinet Member Cllr Neal Davey, Cllr Ray Stanley
Responsible Officer Head of Finance, Head of Housing

Reason for Report: This report provides an estimate of the budget required for the operation of the Housing Revenue Account (HRA) from 2014/15-2017/18.

RECOMMENDATION: That the PDG note the content of this report.

Relationship to Corporate Plan: The Medium Term Financial Plan (MTFP) sets out the financial resources available to deliver the Council's ongoing Corporate Plan pledges/objectives with regard to the landlord function.

Financial Implications: By undertaking an annual review of the MTFP the Council can ensure that its Corporate Plan pledges/objectives are affordable.

Legal Implications: None.

Risk Assessment: The MTFP makes a number of financial assumptions based on a sensible/prudent approach, taking account of the most up to date professional advice that is available.

1.0 Introduction

- 1.1 The Finance and Housing officers have now collated a draft budget for 2014/15 which proposes a balanced budget position, shown as part of a separate report at this meeting.
- 1.2 Further to this, the Heads of Housing and Finance have agreed assumptions for the forthcoming years, in order to determine a reasonable idea of what the financial position of the Housing Revenue Account (HRA) will be.

2.0 Medium Term Assumptions

- 2.1 The largest number in the HRA is the dwelling rent figure. Central government play a significant role in determining what this will be. They have stated that social housing rents across the country should have reached a higher level than they have (known as Formula Rent).
- 2.2 They have set a target of 2015/16 for convergence with this rent, meaning above-inflation increases are necessary until then. This will bring councils into line with housing associations and deliver greater rent level consistency across the social housing sector.

- 2.3 The Government are changing the basis of calculation for social rent. In order to meet this, rent increases for the next two years should be in line with the Retail Price Index (RPI) plus 0.5%, as well as an additional 0.5% to close the existing rent gap. It is assumed that increases will be in line with the Consumer Price Index (CPI) plus 1.0% from 2016/17 onwards. An assumption has been made that RPI will average 3% per annum and CPI 2.5% over the course of the period.
- 2.4 A new agreement has been struck with Devon County Council (DCC) over the funding received for the Warden Service. This agreement does not protect MDDC against funding cuts in future years, so it has been assumed that the funding will reduce by 5% per annum. This is because it has been made clear that DCC budgets for this area are under immense pressure.
- 2.5 Other areas of income, such as garage rents, shop rents, service charges and community alarms, are expected to remain at current levels. This is because these areas have seen customer numbers fall when fees are increased, so price rises tend to be small incremental changes or not at all.
- 2.6 The operational costs of the repairs & maintenance and housing management functions are expected to rise in line with RPI. These areas have produced savings in recent years and so are unlikely to shrink any further in the medium term.
- 2.7 The effect of welfare reform is very difficult to gauge and these could manifest themselves in a variety of forms, such as bad debt, reduced income collection rates, closer working with certain tenant groups etc. Significant funding is set aside to meet the requirement to maintain our properties over the long term (circa 30 years). Any significant effect of Welfare Reform will be offset against this amount.
- 2.8 Special Services (warden and alarm services) are expected to shrink if funding is reduced and customer numbers fall. This is why a steady reduction in cost is shown in appendix 1 in this area.
- 2.9 Since the annual debt repayments are now a known quantity, we are able to predict these into the medium term and beyond with some certainty. The only expected increase here is from 2015/16 onwards, when the HRA borrowing from the GF should increase from £3m to £5m. This is dependent on commencement dates of planned projects such as St Andrew Street remodelling and Fir Close development.
- 2.10 Recharges between the General fund and HRA are yet to be finalised for 2014/15. Overall, the position between the HRA and the General Fund has been assumed as remaining much the same.

HRA Reserve

- 2.11 It is anticipated that the HRA reserve balance will stand at approximately £2.4m at the beginning of 2014/15. There is no plan to utilise the reserve to fund revenue expenditure. This means the balance should remain at this level throughout the period up to the end of 2017/18.
- 2.12 The stock condition survey of 2010 identified an additional funding need in excess of £3m per annum, meaning that there will be increased pressure on the HRA reserve over the coming years. For 2014/15, approximately £2.4m is able to be earmarked towards this need. Officers are now remodelling existing data in order to identify the specific peaks and troughs of demand for major work to be carried out. Output from this work will be reported back to this PDG as soon as it is available.
- 2.13 In an effort to address this need, an amount is to be invested in an earmarked reserve for the long term maintenance of the properties (the Housing Maintenance Fund). This fund will be used to cover the shortfall in future years, when the demand is greater than tenant rents can meet.

3.0 Future Issues

- 3.1 The HRA Budget report 2014/15, also presented at this meeting, describes the following issues.
- Welfare Reform
 - Flexible Tenancies
 - Supported Housing
 - Building New Social Housing (subject to the cap on debt)
 - New methods of calculating depreciation
 - New Policy from Government on Social Rent
- 3.2 Clearly, the above list indicates a number of significant uncertainties facing the HRA. Once more detailed information becomes available, individual reports will be produced for members and the subsequent Medium Term Financial Plan will take account of them.

4.0 Conclusion

- 4.1 The feedback from this meeting will be noted when preparing the final budget proposals, to be brought before this group on 21/01/14.

Contact for more information: Andrew Jarrett
01884 234242
ajarrett@middevon.gov.uk

Roderick Hewson
01884 234230
rhewson@middevon.gov.uk

Background Papers: None
File Reference: None
Circulation of Report: Management Team

HRA Medium Term Financial Plan 2014-2018

Code	Service area	2013/14	2014/15	2015/16	2016/17	2017/18
BHO01	Dwelling Rents	(11,829,720)	(12,450,760)	(12,948,790)	(13,401,998)	(13,871,068)
BHO02	Non Dwelling Rents	(522,430)	(525,060)	(525,060)	(525,060)	(525,060)
BHO03	Warden Income	(329,840)	(329,080)	(312,626)	(296,995)	(282,145)
BHO04	Leaseholders' Service Charges	(13,700)	(13,500)	(13,500)	(13,500)	(13,500)
BHO05	Contributions Towards Expenditure	(21,890)	(35,300)	(35,300)	(35,300)	(35,300)
BHO06	Community Alarms Income	(122,680)	(133,930)	(133,930)	(133,930)	(133,930)
BHO06B	Miscellaneous Income	(19,000)	(19,000)	(19,000)	(19,000)	(19,000)
BHO07	H.R.A. Investment Income	(21,950)	(41,000)	(43,050)	(45,203)	(47,463)
BHO09	Repairs And Maintenance	2,571,580	2,647,920	2,727,358	2,809,178	2,893,454
BHO10	Supervision & Management	1,446,640	1,748,540	1,800,996	1,855,026	1,910,677
BHO11	Special Services	482,800	382,970	481,536	465,905	451,055
BHO17	Bad Debt Provision Movement	25,000	25,000	26,000	26,910	27,852
BHO18	Share Of Corporate And Democratic	151,070	144,300	147,186	150,130	153,132
BHO20	Interest Payable	2,924,010	2,812,000	2,924,000	2,924,000	2,924,000
BHO23	Contribution to Reserves	132,380	145,580	57,580	0	0
	Contribution to Housing Maintenance Fu	1,895,480	2,389,430	2,572,291	2,902,258	3,185,584
	TOTAL	(3,252,250)	(3,251,890)	(3,294,310)	(3,337,578)	(3,381,712)
5000	Recharges	1,130,890	1,130,890	1,130,890	1,130,890	1,130,890
6000	Capital Charges	2,121,360	2,121,000	2,163,420	2,206,688	2,250,822
	TOTAL	3,252,250	3,251,890	3,294,310	3,337,578	3,381,712
	TOTAL	0	0	0	0	0

Assumptions

Dwelling rent increase in line with Social Rent Policy expectations

Non-dwelling rents to remain at current levels

DCC funding to reduce by an average of 5% per annum

Leaseholder service charges to remain at current levels

Contributions Towards Expenditure to remain at current levels

Community Alarms Income to remain at current levels

Miscellaneous Income to remain at current levels

Investment income to grow as balances grow

Repairs And Maintenance costs to increase in line with RPI

Supervision & Management costs to increase in line with RPI

Special Services costs to reduce as the service shrinks

Bad debt provision to grow in line with Social Rent Policy expectations

Pension related costs to increase by 2%

Debt repayments to remain at current levels

Revenue contribution to capital based on known projects

Used to meet the funding gap in the long term

RPI to average 3.0% per annum, CPI 2.5%