

**DECENT & AFFORDABLE HOMES PDG
20 JANUARY 2015**

HRA BUDGET 2015/16

Cabinet Member Cllr Peter Hare-Scott, 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) in 2015/16. It includes a proposal on the rent increase and a schedule of other fees and charges.

RECOMMENDATION: That the PDG agree the rent increase proposed, along with the rest of the budget proposals and agree for MDDC to investigate the feasibility of creating a Special Purpose Vehicle, as described in paragraph 3.5.

Relationship to Corporate Plan: The financial resources of the Council directly impact on its ability to deliver its Corporate Plan objectives/pledges.

Financial Implications: A balanced and realistic budget must be set for 2015/16 in order to maintain a sustainable Housing Revenue Account with adequate investment for necessary maintenance. The rent convergence target of 2015/16 will need to be met in order that the 30 year business plan and debt repayments are achieved.

Legal Implications: It is a statutory requirement for the Council to set a balanced budget.

Risk Assessment: Service managers and Finance staff have assessed volatility in income and large contractor budgets. In addition, reserves will continue to be maintained at prudent levels and grown in some cases to meet future pressures.

1.0 Introduction

1.1 Finance and Housing officers have now collated a final budget for 2015/16 which proposes a balanced budget position, shown here in Appendix 1. We are able to predict with relative certainty the majority of the HRA budget areas, since uncertainties reduce as we get closer to the new financial year.

2.0 Draft Budget

2.1 We are required to set an HRA budget where expenditure is balanced by income. The income is made up primarily of dwelling rents whereas the expenditure consists of day-to-day operations, corporate overheads and capital expenditure. The largest expenditure in the HRA is an annual debt repayment of £2,645k that is made to the Public Works Loan Board.

- 2.2 Our rent income (both dwelling and non-dwelling) is expected to generate in excess of £13m in 2015/16.
- 2.3 The major challenge for managers in setting next year's budget is to meet the significant demand for investment in property maintenance in the long term. It is proposed that £2,323k be budgeted as an annual contribution to the Housing Maintenance Fund to provide for any spikes in demand in future years. This will allow for properties to be maintained to an appropriate standard as well as enabling Mid Devon to support the provision of new social housing.
- 2.4 Recharges between the General Fund and HRA are yet to be finalised, but overall the position between the HRA and the General Fund has been assumed as increasing in line with estimated salary growth.

Rent convergence

- 2.5 MDDC rents currently lag behind Formula Rent (the target that we are tasked with meeting by 2015/16). DCLG are increasing Formula Rent by 2.8%. This means that MDDC need to increase rent even more if the gap is to be closed in time.
- 2.6 By increasing the rents by an average of 3.4%, we will ensure that the vast majority of properties have reached the Formula Rent and those that lag further behind are moved towards Formula Rent as quickly as is possible.

Other Fees & Charges

- 2.7 It is proposed that garage plot ground rents are increased from £165 to £185 per annum. This move is designed to align them more closely with residential parking permits, which will cost £375 in the coming year. In addition, it is proposed that garage rents increase by 2.3% to £11.25 per week.

HRA Reserve

- 2.8 It is anticipated that the HRA reserve balance will stand at approximately £2m at the beginning of 2015/16. There is no plan to utilise the reserve to fund revenue expenditure, but surpluses generated may be used to fund new building. It seems sensible for members to revisit the level of reserve and agree upon a level appropriate to the situation that the HRA now finds itself in.
- 2.9 The work identified in the most recent stock condition survey means that there will be increased pressure on the HRA reserve over the coming years. Managers will need to invest time in business planning and strategy in order to meet the funding demands of the work identified.

3.0 Future Issues

- 3.1 The single biggest issue facing social housing is welfare reform. Great uncertainty exists about the details of new arrangements for the future. What is more, the implications of these changes are difficult to quantify.

Once new arrangements have bedded in, it will be clearer what action MDDC need to take. For instance, it is not clear when Universal Credit will be introduced, if at all.

- 3.2 The Supported Housing service is changing hugely in 2015/16 in that the Warden service will cease to operate from April onwards. This will reduce both income and expenditure and will give MDDC more certainty about its future income and expenditure streams.
- 3.3 The service will then comprise Community Alarms provided to tenants and non-tenants as well as a small Warden service provided to clients with Learning Disabilities.
- 3.4 The prospect of building new social housing raises the issue of significant financing requirements. It means that reserves may need to be built up or additional debt taken on (subject to the cap on debt) in the near future, increasing the need to manage the impact on the revenue budget each year.
- 3.5 Some local authorities around the country that are involved in new development have created separate entities known as Special Purpose Vehicles (SPVs). This has the potential benefit of protecting the social housing sector against the risk of losing properties through the Right to Buy scheme. It is recommended that the PDG agree for MDDC to investigate the feasibility of creating an SPV and evaluate the implications of doing so.
- 3.6 The latest legislation on Right to Buy means that we're likely to sell more properties in future years. This will have an impact on our rent income, which in turn affects our ability to fund property maintenance and development as well as servicing any existing or new debt.
- 3.7 Further reports will be set before members as and when there are developments on any of these issues.

4.0 Conclusion

- 4.1 The proposals in this report should enable the Housing service to operate its day-to-day functions and achieving both its core and its value adding objectives. In addition, it should enable provision to be made for significant works required in the future.
- 4.2 This report will be seen by Cabinet at their meeting on 05/02/14 and by Full Council on 25/02/14. Any further development on the issues mentioned above will be communicated to this group at future meetings.

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Housing Revenue Account Budget

Code	Best Value Unit	Current Year Budget	Movement	Proposed Budget 2015/16
BHO01	Dwelling Rents	(12,466,560)	(344,040)	(12,810,600)
BHO02	Non Dwelling Rents	(525,060)	(2,930)	(527,990)
BHO03	Warden Income	(329,080)	298,100	(30,980)
BHO04	Leaseholders' Service Charges	(13,500)	(6,340)	(19,840)
BHO05	Contributions Towards Expenditure	(35,300)	330	(34,970)
BHO06	Community Alarms Income	(133,930)	(4,240)	(138,170)
BHO06B	Miscellaneous & Solar Panel Income	(19,000)	(150,000)	(169,000)
BHO07	H.R.A. Investment Income	(41,000)	1,000	(40,000)
BHO09	Repairs And Maintenance	2,647,920	(22,970)	2,624,950
BHO10	Supervision & Management	1,800,000	208,610	2,008,610
BHO11	Special Services	382,970	(204,270)	178,700
BHO17	Bad Debt Provision Movement	25,000	0	25,000
BHO18	Share Of Corporate And Democratic	181,600	21,290	202,890
BHO20	Interest Payable	2,812,000	(1,344,210)	1,467,790
BHO22	H.R.A. Transfers between earmarked reserves	0	125,000	125,000
BHO23	Revenue Contribution to Capital	145,580	1,977,180	2,122,760
	TOTAL	(5,568,360)	552,510	(5,015,850)

Recharges	1,205,890	12,060	1,217,950
Capital charges	4,362,470	(564,570)	3,797,900
TOTAL	0		0

Assumptions

Social Rents to increase by an average of 3.4% to give an average of £81.20 per week (over 52 weeks)

Formula Rent to increase by 2.8%

Six further properties sold during 2014/15

Fourteen properties sold during 2015/16

Average of twelve properties void at any one time

Eight properties are excluded from rent setting as they are not available for re-let

Affordable Rents to increase by 2.8%

Garage rents to increase from £11.00 to £11.25 per week

95% occupancy in HRA retail units

The Warden Service to cease operation

Community alarm customer numbers to remain high + 50 customers from within the tenant population

HRA cash balances to remain high in the short term

Debt repayments of £2,645k to PWLB and £125k to GF

£2,323k contribution to the Housing Maintenance Fund to be made

Recharges to grow with assumed salary inflation

Line BHO20 shows loan interest and loan principal in 2014/15, but only loan interest in 2015/16

Line BHO23 includes the contribution to the MRA (£1,999k) in 2015/16

The two changes above have the effect of capital charges reducing by £565k

How the increase works out across all of our properties

We propose to move each property's rent to Formula Rent, or the maximum increase where the rent lags too far behind for this to be possible.

Increases would be spread as follows.

Increase	Number of properties affected	Gap to Formula Rent (average, per week)
< 2.8%	170	£0.00
2.9%-3.3%	2,623	£0.00
3.4%-3.9%	57	£0.00
4.0%-4.4%	18	£0.00
4.5%-4.9%	19	£0.00
5.0%-5.4%	69	£1.44
5.5%-5.9%	72	£1.14
6.0%-6.2%	3	£12.21
TOTAL	3,031	

This would give rise to an average increase of 3.4%, which will take our average rent to £81.20.

Maximum % increase

Properties affected	Formula Rent	Actual rent 2014/15	Current gap	Proposed increase	Proposed increase	Proposed rent 2015/16
1	£75.19	£58.64	£16.55	6.2%	£3.65	£62.29

Maximum £ increase

Properties affected	Formula Rent	Actual rent 2014/15	Current gap	Proposed increase	Proposed increase	Proposed rent 2015/16
1	103.33	£88.02	£15.31	5.1%	£4.46	£92.48

HRA: Proposed Fees and Charges 2015/16

	<u>2015/16</u>	<u>Increase</u>	<u>Increase %</u>	<u>2014/15</u>
<u>Community Alarm Charges per week per property</u> (48 week basis)				
Sheltered & Bronze Scheme Alarm Charge	£2.50	£0.00	0.0%	£2.50
Lifeline Base Unit	£3.76	£0.00	0.0%	£3.76
Premiers – Lifeline plus telephone	£3.90	£0.00	0.0%	£3.90
Garage rents per week (48 week basis) <i>It should be noted that council tenants receive a discount of £2.00 per week on any garage rent.</i>	£11.25	£0.25	2.3%	£11.00
Garage ground rents (Annual charge)	£185	£20	12.1%	£165
<u>N.B.</u> September 2014 RPI: 2.3% MDDC Formula Rent on average				
	2015/16: £81.27	2014/15: £78.98		