

**DECENT & AFFORDABLE HOMES PDG
26 JANUARY 2016**

HRA BUDGET 2016/17

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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 2016/17. Most of the specifics are now known and the remaining uncertainty is the ongoing effect that welfare reform will have.

RECOMMENDATION: That the members of the PDG agree the budget proposals within this report, along with any amendments that members deem appropriate.

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 2016/17 in order that the HRA reserve is not threatened with unplanned expenditure. The budget will need to be carefully managed in order that the 30 year business plan's need for much greater investment in the housing stock is achievable.

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 The Housing Revenue Account (HRA) is a ring fenced account within Mid Devon District Council (MDDC). It sits separately from the General Fund (GF) and accounts for all income and expenditure in relation to the Council's landlord function for social housing.

1.2 Each year, a budget must be set which balances income against expenditure and nets to zero. This report will explain how the proposed budget for 2016/17 has been set and the factors that have affected it.

2.0 Key

2.1 The main factors that have had the most significant effect on proposing a budget for 2016/17 are as follows.

- Formula Rent (FR) reducing by 1% each year for four years
- Right to buy (RTB) enhanced discounts, resulting in higher sales volumes
- Universal Credit
- Pay to Stay initiative – potential to increase cost of administration

- 2.2 In July's government budget announcement, we learnt that FR will reduce by 1% each year for the next four years, where we'd expected it to increase by CPI +1% each year for the next nine years. Since dwelling rent is the largest number in the HRA, the impact this has is obviously significant.
- 2.3 In recent years, the discounts offered as incentives for tenants to exercise their option through RTB have increased significantly and so it is anticipated that take up will continue to increase as it has done during 2015.
- 2.4 The impact of this is that there are fewer properties within Mid Devon's portfolio and so a lower amount of rent is being generated. The size of this impact on the budget can be seen later in this report.
- 2.5 As Universal Credit is introduced across the region, along with other elements of welfare reform, it is expected that Mid Devon's costs of income collection will increase. This is because a large portion of our rent income is received directly from Housing Benefit and so costs of collection are minimal. Under Universal Credit, this amount would be recoverable from the tenants themselves, meaning lots more letters, telephone calls and home visits.

3.0 The 2016/17 Budget Proposals Explained

- 3.1 The impact of the 1% rent reduction as well as the reduced number of properties is an income reduction of £216k for next year. The loss would be greater still if it weren't for the newly built social housing properties of the last year.
- 3.2 Since garage tenant numbers have begun to rise slightly recently, it is proposed that rents be frozen at £11.00 per week in order to avoid a fall off in customers. This increase in customers combined with rent reviews in the HRA shops sees the non-dwelling rent budget increase by £34k.
- 3.3 The Community Alarm service has continued to perform well and, therefore, the budget has increased by £56k. The first reason for this is that many more customers than expected opted to keep the service when it changed from free to chargeable. The second reason is that mainstream lifeline customer numbers have continued to grow.
- 3.4 Repairs & Maintenance has seen an overall decrease of £60k. This is made up of several changes, including increases in some areas and decreases in others. For instance, Responsive Repairs has seen a significant decrease of £196k as direct employees have taken the place of external contractors as well as more major work being taken on by the DLO operatives.
- 3.5 Conversely, Planned Maintenance has seen a significant increase in asbestos related costs as shown in Appendix 3. Also, it is expected that around £126k will be needed to purchase nine replacement vehicles for front-line operatives vehicles from revenue as well as £24k to purchase a larger vehicle from capital.

3.6 Transfers into the HRA earmarked reserves are made up as follows: overall surplus paid into the Housing Maintenance Fund (HMF) £1,767k; renewable energy surplus £130k; affordable rent surplus £73k; loan premium deficit £486k. This gives us the total of £2,456k seen in Appendix 1.

3.7 The £130k in relation to renewable energy transactions is derived from the fact that we anticipate receiving in the region of £150k of income and expect there may be some associated expenditure, for which £20k has been budgeted.

4.0 Recommendation

4.1 It is recommended that the members of the PDG review the appendices, which are made up of the following.

- Appendix 1 – HRA Proposed Budget Summary 2016/17
- Appendix 2 – How the rent decrease works out in relation to Formula Rent
- Appendix 3 – Planned Maintenance Budget Extract
- Appendix 4 – HRA Fees & Charges

4.2 It is further recommended that they agree these proposals, including members' own amendments if appropriate. Since the rent policy is determined by central government, the fees and charges in appendix 4 as well as the Planned Maintenance extract at appendix 3 may be the areas that members choose to debate the most.

5.0 Conclusion

5.1 These budget proposals have been prepared through Finance staff working together with Housing staff and in accordance with guidance from senior elected members. The proposals, with any updates, will be brought before this group again in January before going on to Cabinet and then Full Council for approval on the 24th of February 2016.

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