

# Taunton Deane Borough Council

**Executive – 5 February 2015**

## **Housing Revenue Account (HRA) Estimates 2015/16**

### **Report of the Finance Manager**

(This matter is the responsibility of the Leader of the Council, Councillor John Williams)

### **IMPORTANT NOTICE FOR MEMBERS**

In order for this item to be debated in the most efficient manner at the Executive meeting, Members are requested to contact the named officers at the end of this report in advance of the meeting with queries regarding points of detail or requests for further supporting information.

#### **1 Executive Summary**

This report presents the Executive's 2015/16 Budget for the Housing Revenue Account (HRA) for recommendation to Full Council for approval on 24 February 2015.

The Budget was previously presented to Members at Corporate Scrutiny on 22 January 2015.

The proposed **average rent for dwellings in 2015/16 is £83.88 per week**. This represents an **increase of £1.82 or 2.2%**, which is in line with the approved Rent Policy within the Business Plan.

The Budget presents a balanced position overall for 2015/16, and includes an increase in funding in the Social Housing Development Fund to support new provision of council dwellings.

#### **2 Background**

2.1 The purpose of this report is for the Executive to consider and finalise its Draft Housing Revenue Account Budget proposals for 2015/16, for recommendation to Full Council on 24 February 2015. The Business Plan considers the links to the overall strategy of the Council.

2.2 This report also includes the proposed rent charges for the year, which is in

line with the Rent Policy within the Business Plan. The proposed increase in rents allows sufficient funds to provide tenancy management services, maintain housing stock in good condition, continue the established programme of stock refurbishment, invest in new housing, and repayment of the housing debt. As set out in the report lower inflation rates mean that the proposed increase is lower than in previous years.

- 2.3 The financial year 2015/16 will be the fourth year of operating the HRA under self financing arrangements. The Council remains on course to repay the settlement debt of £85.2m, taken on in March 2012, by 2030.

### **3 Corporate Scrutiny Comments**

- 3.1 The Draft budget was presented to Corporate Scrutiny on 22 January 2015 for review and comment. The Committee supported the recommendations within the report, and there were no specific comments for the Executive to consider.

### **4 Housing Revenue Account 2015/16**

- 4.1 The Proposed Budget is based on assumptions and estimates on expenditure requirements and income projections, in order to deliver the updated Business Plan. This report sets out the main elements of the budget proposals reflected in the latest Business Plan.
- 4.2 A summary of the overall Draft HRA Budget 2015/16 is included in Appendix A.

### **5 Dwelling Rent Levels for 2015/16**

- 5.1 Dwelling rents for over 5,800 properties provide an annual income of over £24m for the HRA.
- 5.2 Local authorities have both the power and duty to set their own rent. However, in December 2000 Central Government set out a policy for social rents in England to be fair, affordable and less confusing for tenants; local authorities and housing associations were to bring rents into line over several years, using a national formula to set a target rent (also called 'formula rent') based on property values and average manual earnings in each area.
- 5.3 The previous subsidy system required local authorities to raise their 'average weekly rent' to meet the 'target' or 'formula' rent by the convergence date of 2015/16. However, in 2014 the Government amended its guidance in this respect and full convergence cannot now be obtained. 2014/15 is the final year that a convergence factor can be included in the rent calculation, and the ongoing impact of this change is that the Council will lose the potential to increase rent income by approximately £242k per year from 2015/16 onwards. From 2015/16 the Government has also altered the basis for calculation of guideline rent increases from RPI plus ½%, to CPI plus 1%. CPI inflation as at September 2014, which is the measurement used for rent setting, is 1.2%.

5.4 In line with the national rent guidance and the service need identified in the Business Plan, it is **proposed that the average weekly rent for dwellings for 2015/16 should be set at the guideline rent of £83.88, an increase of 2.2% or £1.82 per week.**

5.5 The various rents for 2015/16 calculated from the formulae are:

|  |   | 2014/15 | 2015/16 | % increase |
|--|---|---------|---------|------------|
| Average rent                                     | <i>Rent as per Rent Guidelines (with uplift of CPI+1% from 2015/16)</i>   | £82.06  | £83.88  | 2.2%       |
| Rent under old rent system (without convergence) | <i>With uplift of RPI+½ %</i>   |         | £84.37  | 2.8%       |
| Rent under old rent system (with convergence)    | <i>With uplift of RPI+½% plus an affordable step towards formula rent</i> |         | £85.96  | 4.8%       |
| Proposed average weekly rent                     |   |         | £83.88  | 2.2%       |
| Total increase over previous year £p             |   |         | £1.82   |            |
| Total increase over previous year %              |   |         | 2.2%    |            |

5.6 Members could choose not to increase rents to the guideline amount. However, each 0.5% rent change costs (or saves) tenants an average of 41p per week (£21.32 per year) and brings in (or reduces) HRA income by around £118,500 per year. The £85.2m Self Financing debt settlement in March 2012 was predicated on the assumption that local authority landlords would reach rent convergence by 2015/16. However, the Government has recently amended its guidance in this respect and full convergence cannot now be obtained – see 4.3 above.

## 6 Other Income

6.1 Around 7.4% of HRA income, or some £2.0m in total, comes from non-dwelling rents (mainly garages but also shops, hostels and community centres), charges for services and facilities, and contributions to HRA costs from leaseholders and others. Although national guidance for dwelling rents links charges with CPI, it is intended to continue to use RPI as the inflation index for non-dwelling rents and other service charges. The proposed changes to specific budget lines, reflecting changes approved by Full Council in December 2014, are:

6.2 **Non Dwelling Rents:** a 2.3% increase, standard inflation (RPI) amount as at September 2014 (last year 3.2%), with garages rented by private tenants and owner occupiers increasing by 5%.

6.3 **Charges for Services and Facilities:** a 2.3% increase (last year 3.2%). Budgets for service charges have been reset in line with the current stock, and budgets added for annual service charges to leaseholders and rechargeable

repairs for current and former tenants. Actual charges to leaseholders will continue to be based on actual costs incurred.

6.4 **Supporting People Income:** a 2.3% increase in charges to individual subscribers to the service (last year 3.2%). Somerset County Council receives 'Supporting People' funding from CLG and uses it to purchase services from a range of providers including TDBC. Reductions in national funding have led to a reduction of 33% for support contracts which were renewed in October 2014.

6.5 **Contributions towards expenditure:** from the General Fund to cover a share of costs in the HRA for work done on estates where people have bought their homes under Right to Buy. (There are approximately 4,000 privately-owned homes on HRA estates, compared to around 5,800 total HRA stock; those private households pay their share of HRA estate-management costs through their council tax and the General Fund.)

## 7 Expenditure

7.1 Below are brief descriptions of the main areas of spending with explanations of any significant changes to the current budgets.

7.2 **Management Expenses:** These include the costs of the teams administering tenancies, collecting rents and arranging or planning maintenance work as well as a share of the Council's other relevant costs. An increase in costs of £144k is expected overall. Key points for 2015/16 are:

- a) The budget includes standard corporate inflation assumptions (5% utilities, 3% insurance and an increase of 2.2% on salaries).
- b) The inclusion of additional management costs as identified in the Joint Management and Shared Services Report.

7.3 **Maintenance:** the cost for 2015/16 is expected to decrease by £993k to £7,272k. This equates to spend of around £1,240 per property, based on the service's best estimate of work that can realistically be carried out. Key points for 2015/16 are:

- a) The Business Plan allowed for a 'transition year' in 2014/15 for additional spending on void properties. It is assumed that costs will reduce in 2015/16 to be in line with industry averages.
- b) Pre-planned maintenance also had additional funding of £308k in 2014/15 which was to cover the cost of works slipped from 2013/14. This is not being taken forward into the 2015/16 base budget.
- c) Some cyclical works such as the installation of smoke detectors has now ceased, reducing the budget in Specialist Works by £70k.
- d) Some of the asbestos works currently funded within Specialist Works will be carried out 'in house' under the new Joint Management and Shared Services structure allowing the budget to be reduced by £40k.
- e) Electrical and Heating works have been reduced in line with current forecasts.

f) General Maintenance has been increased by £179k due to the increased costs in this area.

- 7.4 **Rents, Rates, Taxes and Other Charges:** Rents, rates and charges for HRA properties. This includes insurance costs, cost of utilities in communal areas, council tax payable on void properties, and rents payable on non HRA owned property.
- 7.5 **Provision for bad debts:** the second year of the planned three year rise from 0.5% to 2% had been postponed until Quarter 4 of 2014/15. This is due to universal credit being unlikely to be implemented until this time.
- 7.6 **Depreciation:** cash reserved in the Major Repairs Allowance (MRA), increased in line with expected national accounting rules and used towards £6.75m capital work that maintains housing stock in good condition.
- 7.7 **Debt Management Expenses:** bank charges and the costs of managing cash flow, borrowing and investments.
- 7.8 **Repayment of Borrowing and Interest:** interest and a contribution towards the repayment of the debt currently held in the HRA of £97.6m. The contribution towards the repayment of debt is reducing to £881k for 2015/16 in line with the review of the Business Plan and is scheduled to increase in subsequent years. The interest payable on debt is expected to increase by £129k due to additional borrowing for approved schemes such as Creechbarrow Road and the Social Housing Development Fund Phase 1 sites.
- 7.9 **Interest receivable:** is based on an estimated interest rate on investments.

## 8 Appropriations

- 8.1 **Transfers to General Fund:** This is the estimated procurement savings being achieved within the HRA through the Southwest One procurement team and recorded through the Benefits Tracking System (BTS). The savings are currently transferred to the General Fund to contribute to the cost of the Transformation Project. Any ongoing procurement savings will be retained by the HRA in future years once the Project costs have been fully funded.
- 8.2 **Revenue Contribution to Capital (RCCO):** RCCO pays for capital work costing more than the £6.71m MRA noted in paragraph 6.6 above. The Business Plan capital programme is £7.67m for 2015/16 of which the remainder of £0.87m will be funded from RCCO. Further information on the proposed programme is included in Item 7 of this Consultation Pack.
- 8.3 **Social Housing Development Fund:** is the contribution made towards developments such as Creechbarrow Road and is in line with the Business Plan having increased to £1m from 2015/16.

## **9 HRA Reserves**

- 9.1 As set out in the HRA Business Plan the recommended minimum unearmarked reserve balance for the HRA is £1.8m (approx £300 per property). There are no budgeted transfers to or from this balance in 2014/15. The current projected balance in the current financial year is approx £2.17m, providing some flexibility to fund additional one off costs if required.

## **10 Corporate Scrutiny Comments**

- 10.1 To be verbally updated at the meeting.

## **11 Finance Comments**

- 11.1 This is a finance report and there are no additional comments.

## **12 Legal Comments**

- 12.1 Local housing authorities are required by Section 74 of the Local Government and Housing Act 1989 (the "1989 Act") to keep a Housing Revenue Account (HRA) unless the Secretary of State has consented to their not doing so. The account must show income and expenditure coming from the Council's activities as landlord under Part II of the Housing Act 1985. Section 75 of the 1989 Act sets out an obligation for the HRA to show the major elements of housing revenue expenditure – maintenance, administration, and contributions to capital costs – and how these are met by rents, subsidy and other income.
- 12.2 The Local Government and Housing Act 1989 'ringfenced' the HRA: local authorities can only include items in the HRA for which there is statutory provision, and transfers of income and expenditure between the HRA and the General Fund are only allowed in very specific circumstances. In essence, rents cannot be subsidised by transfers from the General Fund, and Council Tax cannot be subsidised by transfers from the HRA.
- 12.3 The reform of council house financing is taking place under authority of Part 7 Chapter 3 of the Localism Act 2011 (November 2011).

## **13 Links to Corporate Aims**

- 13.1 The draft budget proposals for 2015/16 have been prepared in line with the HRA Business Plan. The Housing Revenue Account is directly linked to the Affordable Housing corporate aim.

## **14 Environmental and Community Safety Implications**

- 14.1 Environmental and community safety implications have been considered in arriving at the draft budget proposals.

## **15 Equalities Impact**

- 15.1 A full Equalities Impact Assessment was included with the approved HRA Business Plan, upon which this budget is based.
- 15.2 The proposed rent increase will apply to all tenants and as such no potential discrimination amongst the protected groups has been identified.
- 15.3 To help support tenants on low incomes Housing Services will continue to provide a number of initiatives to enable them to manage their finances and maximise their income:
- Publish clear information on rent which helps tenants to manage their own finances;
  - Signpost tenants to a relevant benefit agency to help ensure they are maximising their income to meet their living costs;
  - Take action to raise the awareness of accessing a range of welfare benefits; and
  - Provide the opportunity to access direct support in checking they are in receipt of the welfare benefits they are entitled to claim.

## **16 Risk Management**

- 16.1 The risks associated with the proposed budget have been considered, with a detailed risk analysis being undertaken through the update of the HRA Business Plan.

## **17 Partnership Implications**

- 17.1 None for the purposes of this report.

## **18 Recommendation**

- 18.1 The Executive recommends to Full Council the approval of the average rent increase of 2.2% for 2015/16 in line with the Council's approved Rent Policy.
- 18.2 The Executive recommends to Full Council the approval of the Housing Revenue Account Budget 2015/16.

### **Background Papers**

Corporate Scrutiny 22 January 2015 – Draft Housing Revenue Account (HRA) Estimates 2015/16

Executive 14 January 2015 – HRA Business Plan Review

Executive 9 December 2014 – Fees and Charges 2015/16

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**PROPOSED HOUSING REVENUE ACCOUNT 2015/16 (continued)**

|  | 2014/15<br>Budget<br>£ | 2015/16<br>Estimate<br>£ | 2016/17<br>Estimate<br>£ | 2017/18<br>Estimate<br>£ | 2018/19<br>Estimate<br>£ | 2019/20<br>Estimate<br>£ |
|--|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>HRA FUND BALANCE</b>                  |                        |                          |                          |                          |                          |                          |
| Estimated balance b/f 1 April (rounded)  | 3,059,343              | 2,172,043                | 2,172,043                | 2,172,043                | 2,172,043                | 1,942,043                |
| Transfer to/from reserves                | (887,300)              | 0                        | 0                        | 0                        | (230,000)                | 230,000                  |
| HRA (surplus) / deficit each year        | 0                      | 0                        | 0                        | 0                        | 0                        | 0                        |
| Estimated balance c/f 31 March (rounded) | <u>2,172,043</u>       | <u>2,172,043</u>         | <u>2,172,043</u>         | <u>2,172,043</u>         | <u>1,942,043</u>         | <u>2,172,043</u>         |

**NOTE:**

The £1.8m minimum Fund Balance reserve figure is based on a minimum of approximately £300 per property for maintenance costs.