

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 10 February 2014

Portfolio:	Policy and Resources
Subject:	Housing Revenue Account Spending Plans, including the Capital Programme for 2014/15
Report of:	Director of Finance and Resources
Strategy/Policy:	Housing Strategy
Corporate Objective:	A balanced housing market

Purpose:

This report seeks Executive endorsement for the revised budget for 2013/14, the base budget, rent increases and fees and charges for 2014/15 and the capital programme and it's financing for the years 2013/14 to 2017/18.

Executive summary:

The Executive recommended and the Council approved, in February 2013, the base budget and rent increase for 2013/14, for Housing Revenue Account services.

This report sets out the Housing Revenue Account revised budget for 2013/14 and base budget for 2014/15 along with the capital programme and it's financing for the years 2013/14 to 2017/18. The report examines the issues affecting the Housing Revenue Account including rent increases with effect from 7 April 2014.

Council budgets are susceptible to changes in the level of expenditure and income caused by factors outside the Council's control. A risk assessment has been carried out to indicate the effect on housing balances of changes in the level of expenditure and income. This can be used to estimate the account balances needed to provide a prudent level of reserves and a working balance.

Recommendation:

- (a) individual rent increases in line with the rent restructuring model, be approved for Council dwellings with effect from 7 April 2014;
- (b) rents for Council garages be increased by 5% with effect from 7 April 2014;
- (c) discretionary fees and charges be increased to provide a minimum increase of 5%, where possible, with effect from 7 April 2014;
- (d) the revised budget for 2013/14 be approved;

- (e) the base budget for 2014/15 be approved;
- (f) the capital programme and financing for 2013/14 to 2017/18 be approved; and
- (g) annual budgets and assumptions are set with the aim of ensuring sufficient surpluses are held to repay debt on the date of maturity of each loan.

Reason:

To allow the Full Council to approve the Housing Revenue Account budget for 2014/15.

Cost of proposals:

As detailed in the report.

Appendices:

- A:** Capital Programme and Financing
- B:** Housing Revenue Account Budget
- C:** Housing Repairs Account
- D:** Examples of Rent
- E:** Fees and Charges
- F:** Graph of Balances

Background papers: October 2013 Consultation – Rents for Social Housing
2015/16 – 2024/25 issued by DCLG

FAREHAM

BOROUGH COUNCIL

Executive Briefing Paper

Date: 10 February 2014

Subject: Housing Revenue Account Spending Plans, including the Capital Programme for 2014/15

Briefing by: Director of Finance and Resources

Portfolio: Policy and Resources

INTRODUCTION

1. This report brings together the revenue and capital spending plans for 2013/14 and 2014/15 for the Board to consider. On 7 October 2013, the Executive approved the Council's Finance Strategy for 2014/15 and later years. The budget guidelines contained with the Strategy have been used as a basis for the Housing Revenue Account (HRA) spending plans.

CAPITAL PROGRAMME – APPENDIX A

2. The five year capital programme has been updated and is summarised in the following table. More details of the capital schemes and its financing can be found in Appendix A.

Year	£'000
2013/14	4,275
2014/15	8,297
2015/16	6,951
2016/17	1,769
2017/18	4,222
Total	<u><u>25,514</u></u>

3. The financing of the capital programme is mainly from the Major Repairs Reserve (MRR), external grants, Capital Fund and Revenue Contributions to Capital (RCCO) and retained 1-for-1 receipts from Right-to-Buy sales.
4. The major schemes in 2014/15 and 2015/16 are the new Collingwood House, new accommodation in Palmerston Avenue and the potential purchase of a sheltered scheme at Coldeast.
5. Following the changes to the Right-to-Buy scheme, we are required to utilise retained 1-for-1 Right-to-Buy receipts to increase our housing stock. Such proceeds must

represent no more than 30% of the cost of acquisition or new build with the balance being met from revenue reserves or borrowing and to use the monies within three years of being received. It is intended not to borrow for this purpose.

REVENUE BUDGETS – APPENDICES B & C

6. The following tables summarise the base and revised budgets for 2013/14 and the base budget for 2014/15, of the Housing Revenue Account and Housing Repairs Account. Further information can be found in Appendices B and C.

Housing Revenue Account - Appendix B	Base Budget 2013/14 £'000	Revised Budget 2013/14 £'000	Base Budget 2014/15 £'000
Income from service	-11,426	-11,461	-12,120
Expenditure on service	7,098	6,989	6,962
Net cost of service	-4,328	-4,472	-5,158
Interest	1,707	1,761	1,721
RCCO, Transfer to Capital Development Fund	2,889	2,164	3,852
(Surplus) / deficit	268	-547	415
Opening Balance	-4,593	-4,358	-4,905
Closing Balance	-4,325	-4,905	-4,490
Housing Repairs Account - Appendix C	Base Budget 2013/14 £'000	Revised Budget 2013/14 £'000	Base Budget 2014/15 £'000
Income	-1,680	-1,681	-1,679
Expenditure	1,680	1,681	1,679
(Surplus) / deficit	0	0	0
Opening balance	-1,800	-1,800	-1,800
Closing balance	-1,800	-1,800	-1,800
Overall closing balance	-6,125	-6,705	-6,290
Properties at 31 March	2,368	2,356	2,353
Average balance per property £'s	-2,587	-2,846	-2,673

7. The HRA budget for 2014/15 includes a further transfer of £2,164,000 into the Capital Fund that was set up in 2012/13 for the purpose of repaying debt and for the reinvesting in existing or new stock.
8. The revised budget on the Repairs Account for 2013/14 includes expenditure for work not completed in 2012/13 of:

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- a) £122,900 Asbestos Survey
- b) £98,500 Disabled Modifications
- c) £45,900 External Decorations
- d) £28,900 Gas Servicing

9. It is the intention to continue to maintain a fixed year-end balance on the Repairs Account of £1,800,000. This provides a sufficient cushion to pay for any unexpected repairs and to protect the HRA from fluctuations in the level of repairs.
10. A graph depicting yearly surpluses/deficits, balance of debt and reserves over a time period of 30 years can be viewed in Appendix D.

RENT RESTRUCTURING AND INCREASES – APPENDIX E

11. Rents are set in line with the Government's rent setting policy which was used in calculating the level of debt that was taken on in 2011/12 to leave the Housing Revenue Account Subsidy System. The target date for convergence was 2015/16.
12. In the Spending Review 2013, the Government announced its intention that social rents would increase by CPI + 1% from 2015/16 - 2024/25. This has been confirmed in a consultation dated October 2013 "Rents for Social Housing from 2015/16".
13. The consultation includes a proposal that the date of 2015/16 be removed for social rents to converge. It is anticipated that by 2015/16, 974 properties will be below formula rent (40% of the stock). The intention and expectation is that when a property is re-let, it will be let at the formula rent for the property type.
14. For 2014/15, rents will continue to increase by September RPI (3.2%) + 0.5% (plus £2 for properties below formula rent). This results in an average rent increase for tenants of 5.35% (£4.52 per week average increase). Housing benefit will cover this increase for around 64% of tenants. Appendix E shows examples of the proposed new rents.
15. Under the Housing Benefit reforms, of the 1513 tenants who receive housing benefit, 112 (122 in 2012/13) are under-occupying. 92 (110) are affected by a 14% reduction in housing benefit and 20 (12) by a 25% reduction.
16. Rents for Council garages are not covered by rent restructuring. The number of garages which are not let is stable year on year. It is proposed that garage rents for 2014/15 increase by 5%.

FEES AND CHARGES – APPENDIX F

17. The current fees and charges for the HRA and the proposed charges for 2014/15 are set out in appendix F. The proposed discretionary fees have been increased wherever possible to achieve a 5% increase.
18. The statutory charge is subject to the control and advice of Government. The current level of charge has been set at the maximum allowed.

RISK ASSESSMENT

19. Council budgets are susceptible to changes in the level of expenditure and income caused by factors both outside and within the Council's control. A risk assessment has been carried out to indicate the effect on balances of changes in the level of expenditure

and income. This can be used to estimate the account balances needed to provide a prudent level of reserves and working balance.

20. Factors taken into account include revenue repairs which tend to be demand led and include emergency repairs not included in the budgeted provision and not covered by insurance; potential future problems such as those related to asbestos, contaminated land, PRC construction (pre-cast reinforced concrete), fire risks, access, and legionella, which would lead to an increased capital programme; fluctuations in interest rates and uncertainty over the Supporting People funding to provide support for people receiving the sheltered housing service.
21. The table below gives examples of changes in the level of resources and expenditure that could occur in the future as a result of events outside and within the Council's control and which need to be taken into account when considering how much money should be held in reserves. It is very unlikely that all these things would happen at the same time.

Examples of potential changes in level of resources or expenditure	Effect on expenditure £'000s	Effect on income £'000s
10% increase in revenue repairs	+£100	
20% increase in cyclical repairs	+£90	
Loss of income if void rate rises to 2.5%		-£90
Loss of income if bad debts increase to 5%		-£330
Increase from 4 to 10 RTB's per annum – income		-£30
Increase to 10 RTB's per annum – responsive repairs	-£7	

22. The above list of potential risks indicates that it is essential to preserve the account balances held now for the HRA and the Repairs Account. Reserves are held so that we can:
- Continue to manage and maintain homes;
 - Improve and redevelop estates;
 - Cover any unexpected expenditure;
 - Take advantage of new opportunities to meet housing needs;
 - Repay debt; and
 - Meet the challenges of any change to Decent Homes Standard.

CONCLUSION

23. The Executive will be asked to approve the following recommendations to Full Council:
- a) individual rent increases in line with the rent restructuring model, be approved for Council dwellings with effect from 1 April 2013; rents for Council garages be increased by 5% with effect from 1 April 2013;

- c) discretionary fees and charges be increased to provide a minimum increase of 5% with effect from 1 April 2013;
- d) the revised budget for 2012/13 be approved;
- e) the base budget for 2013/14 be approved;
- f) the capital programme and financing for 2012/13 to 2016/17 be approved; and
- g) annual budgets and assumptions are set with the aim of ensuring sufficient surpluses are held to repay debt on the date of maturity of each loan.

Reference Papers:

- a) Executive 11 February 2013 – Housing Revenue Account Spending Plans including the Capital Programme 2013/14
- b) Executive 8 July 2013 – Actual Housing Revenue Account Expenditure and Financing 2012/13
- c) Executive 7 October 2013 – Annual Review of the Council's Finance Strategy
- d) HRA 30 year Business Plan

APPENDIX A

CAPITAL PROGRAMME AND FINANCING	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	TOTAL £'000
Improvements, Energy Conservation & Environmental Works	1,293	1,653	1,673	1,744	4,197	10,560
Energy Conservation	973					973
Environmental Works	50					50
Converting front gardens for car parking		25	25	25	25	100
Capitalised Repairs / Renewals	220					220
New Builds - Palmerston Avenue		1,600				1,600
Acquisitions - general needs		790				790
New & Redeveloped Sheltered Schemes						
- Collingwood House	1,719	3,329	153			5,201
- Coldeast		900	5,100			6,000
Mobility Scooter Storage	20					20
TOTAL	4,275	8,297	6,951	1,769	4,222	25,514
FINANCED BY:						
Major Repairs Reserve	3,963	3,181	2,308	1,769	1,404	12,625
Revenue contribution to Capital		2,149	2,226		2,818	7,193
1:4:1 Receipts		237				237
Grants & Contributions	312	313				625
Capital Fund		2,417	2,417			4,834
Total Financing	4,275	8,297	6,951	1,769	4,222	25,514

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APPENDIX B

HOUSING REVENUE ACCOUNT

	Actual 2012/13	Base 2013/14	Revised 2013/14	Base 2014/15
	£000s	£000s	£000s	£000s
Income				
Rents - Dwellings	-10,048	-10,320	-10,360	-10,970
Rents - Garages	-216	-224	-227	-236
Rents - Other	-17	-18	-18	-18
Service Charges (Wardens, extra assistance, heating)	-239	-240	-238	-260
Cleaning	-117	-108	-103	-114
Grounds Maintenance	-73	-75	-74	-79
Other Fees and Charges	-25	-21	-28	-24
Leaseholder Service Charges	-65	-66	-65	-65
Grants receivable	-367	-354	-348	-354
	-11,167	-11,427	-11,461	-12,120
Expenditure				
General Administrative Expenses	1,717	1,488	1,579	1,548
Corporate & Democratic Core	57	61	58	58
Corporate Management	82	87	101	107
Communal Heating Services	74	70	73	76
Communal Lighting	27	38	35	36
Rents, Rates & Other Taxes	50	47	48	49
Communal Cleaning	134	140	131	134
Grounds Maintenance	182	188	196	194
Sheltered Housing Service	537	601	534	542
Fire & Refuse	11	50	50	50
Insurance Liability Provision	33	0	0	0
Sub-total of management costs	2,905	2,770	2,805	2,794
Contribution to Repairs Account	2,099	1,620	1,621	1,619
Bad Debts Provision	75	206	27	27
Bad Debts Written off	14	0	30	10
Depreciation	2,488	2,456	2,476	2,478
Debt Management Expenses	23	46	29	34
	7,602	7,099	6,989	6,962
Net income from service	-3,565	-4,328	-4,472	-5,158

	Actual 2012/13 £000s	Base 2013/14 £000s	Revised 2013/14 £000s	Base 2014/15 £000s
Net income from service	-3,565	-4,328	-4,472	-5,158
Interest Payable	1,864	1,870	1,871	1,871
Premium on Debt Redemption	99	0	0	0
Interest earned on internal balances	-165	-163	-110	-150
Net operating income	-1,767	-2,621	-2,711	-3,437
Revenue contribution to capital	48	725	0	1,688
Pension Interest Cost & Return on Assets	185	0	0	0
Movement on Pension Reserve	260	0	0	0
Transfer to Capital Fund	2,164	2,164	2,164	2,164
Pension Reserve Contributions	-437	0	0	0
(Surplus)/Deficit for year	455	268	-547	415
Housing Revenue Account balance				
Balance brought forward	-4,813	-4,593	-4,358	-4,905
(Surplus)/Deficit for year	455	268	-547	415
Balance carried forward	-4,358	-4,325	-4,905	-4,490

**HOUSING REVENUE ACCOUNT
EXPENDITURE DETAIL**

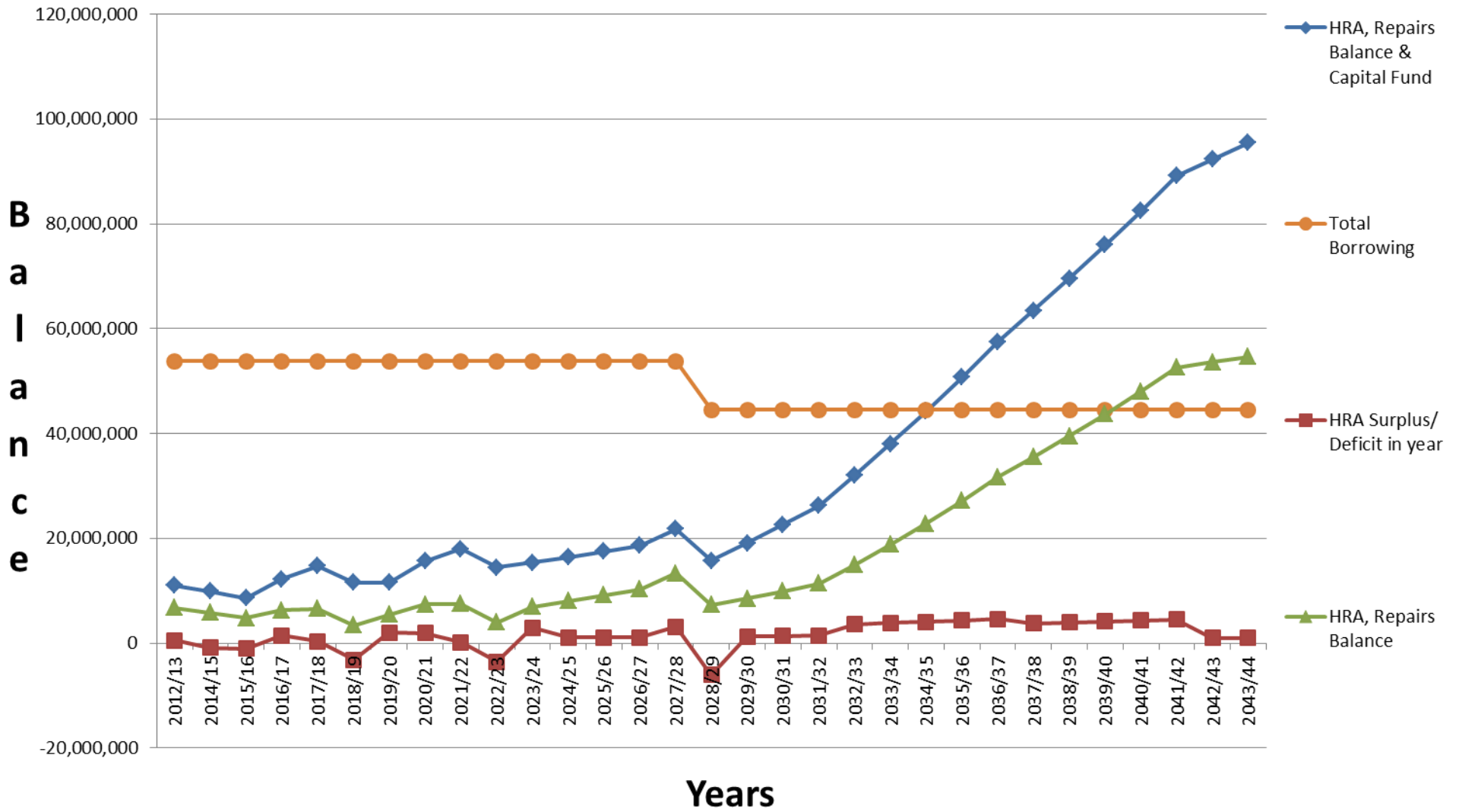
	Actual 2012/13	Base 2013/14	Revised 2013/14	Base 2014/15
	£000s	£000s	£000s	£000s
General Administrative Expenses				
Corporate & Democratic Core	57	61	58	58
Corporate Management	82	86	101	108
Employees	804	741	816	776
Premises	97	96	97	98
Transport	13	7	19	19
Supplies and Services	233	94	102	88
Contract Services	43	38	38	48
Internal Support	531	516	516	525
Income	-3	-3	-8	-7
	1,856	1,636	1,738	1,713
Communal Heating Services				
Premises	74	70	73	76
	74	70	73	76
Communal Lighting				
Premises	27	38	35	36
	27	38	35	36
Communal Cleaning				
Employees	32	41	31	37
Premises	99	97	99	95
Internal Support	2	2	2	2
	134	140	131	134
Grounds Maintenance				
Employees	12	14	13	13
Premises	138	148	157	154
Internal Support	32	26	26	27
	182	188	196	194
Sheltered Housing Service				
Employees	448	512	438	448
Premises	49	46	47	47
Transport	8	8	14	14
Supplies and Services	16	20	19	18
Internal Support	18	16	16	16
	537	601	534	542
Other Communal Services				
Premises	34	31	32	32
Supplies and Services	16	17	16	17
Fire & Refuse -Premises	11	50	50	50
Insurance Liability Provision	33	0	0	0
	94	97	98	99

APPENDIX C

HOUSING REPAIRS ACCOUNT

Expenditure	Actual 2012/13	Base 2013/14	Revised 2013/14	Base 2014/15
	£000s	£000s	£000s	£000s
Day to Day				
Internal decorating	22	55	55	55
General repairs	621	574	574	574
External works	161	160	160	160
Work to garages	35	21	21	21
Works to void properties	108	103	103	103
DSO Surplus	-24	0	0	0
Other works	33	83	83	83
	956	996	996	996
Schemes previously in the capital programme				
Repairs	803	222	222	222
Total from capital programme	803	222	222	222
Cyclical repairs				
External decorating	116	108	108	108
Gas service & associated repairs	249	250	250	250
Lift servicing	26	30	32	30
Pre decorating repairs	20	14	14	14
Emergency lighting	49	48	48	48
DSO Surplus	-4	0	0	0
Total cyclical	455	450	452	450
Administration				
Supplies & services	9	9	11	11
	9	9	11	11
Total expenditure	2,223	1,676	1,681	1,679
Income				
Contribution from HRA	-2,099	-1,620	-1,621	-1,619
Fees & charges	-40	-56	-60	-60
Total income	-2,139	-1,676	-1,681	-1,679
Balance brought forward	-1,800	-1,800	-1,800	-1,800
(Surplus)/Deficit for year	84	0	0	0
Tfr from Repairs Reserve	-84	0	0	0
Balance carried forward	-1,800	-1,800	-1,800	-1,800

Balances over 30 years



HRA EXAMPLES OF RENT

	Property type	2013/14 Actual Rent	2014/15 Proposed Rent	Increase £ p.w.	Increase % p.w.
Nashe Way	1 Bed Bungalow	£82.67	£87.73	£5.06	6.12%
Foster Close	1 Bed Flat	£75.80	£79.40	£3.60	4.75%
Grebe Close	2 Bed Bungalow	£102.06	£107.70	£5.64	5.53%
Addison Road	2 Bed House	£99.30	£103.48	£4.18	4.21%
Foxbury Grove	2 Bed Flat	£85.17	£90.32	£5.15	6.05%
Garden Court	1 Bed Maisonette	£75.70	£79.40	£3.70	4.89%
Sicity House	2 Bed Maisonette	£85.02	£87.63	£2.61	3.07%
Fairfield Avenue	3 Bed House	£101.49	£104.96	£3.47	3.42%
Garden Court	3 Bed Flat	£99.13	£101.15	£2.02	2.04%
Foster Close	4 Bed House	£117.30	£119.95	£2.65	2.26%
Average for total stock		£84.39	£88.91	£4.52	5.35%
Garages		£9.35	£9.82	£0.47	5%

FEES AND CHARGES 2014/15

	Existing Charge inc VAT	Proposed Charge inc VAT	Increase
<u>Discretionary Charges</u>			
Sheltered Accommodation for the Elderly			
Guest Room Charge – single occupancy per night	£7.00	£7.35	5.0%
Guest Room Charge - per couple per night	£10.00	£10.50	5.0%
Rechargeable Repairs to Council houses			
a) Abortive visit by Officer, Surveyor or Tradesman – Standard charge per visit	£40.50	£42.50	5.0%
b) Rechargeable works	These will be assessed individually at the time the work is carried out		
c) Service charges to purchasers of flats and maisonettes	These annual charges are made in advance on the basis of estimated costs. Once the actual cost is known, a retrospective adjustment is made.		
Recharge of Officer time in agreeing any consent to freeholders			
Fee per occurrence	£75.60	£79.40	5.03%
<u>Statutory Charge</u>			
Sale of Council Houses			
Legal and administration fees in connection with granting a service charge loan (statutory maximum of £100)	£100.00	£100.00	0.0%