

CABINET (HOUSING) COMMITTEE - 19 SEPTEMBER 2012

OVERVIEW AND SCRUTINY COMMITTEE – 8 OCTOBER 2012

HOUSING REVENUE ACCOUNT – REVISED 2012/13 BUDGET

REPORT OF HEAD OF HOUSING SERVICES

Contact Officer: Richard Botham Tel No: 01962 848421

RECENT REFERENCES:

CAB2287 (HSG) – Housing Revenue Account Budget 2012/13 and Business Plan 2012/13 to 2042/43 – 1 February 2012

EXECUTIVE SUMMARY:

This report recommends revisions to the Housing Revenue Account (HRA) Budget for 2012/13, which was originally approved by Council in February 2012. The revisions take account of the final borrowing arrangements and interest rates secured resulting from HRA Reform, updated income and spend projections for the New Homes Delivery programme, additional proposals for sheltered housing and changes to a number of budgets to reflect latest projections for spend on utilities.

The net result of the proposed changes adds a further £488,000 to the working balances for the HRA. This additional resource will be included within the HRA 2013/14 budget proposals that will be considered in later in the year.

RECOMMENDATIONS:

1. That the revised HRA Budget for 2012/13, incorporating the changes detailed in paragraph 3 and set out in Appendix 1, 2 and 4 be approved.
2. That balances be retained at £2.445M at this time and that further consideration be given to the appropriate level of balances as part of the budget process for 2013/14, which will enable the level of balances to be considered alongside the updated 30 years HRA Business Plan
3. That a New Build Reserve be established to ensure appropriate funds are earmarked for New Homes Delivery as soon as they become available

That The Overview & Scrutiny Committee:

4. Considers whether to call-in the virement referred to in paragraph 3 (e) of the Report with regard to the potential of incurring “home loss payments” to residents moving from Victoria House Extra Care Scheme (up to £80,0000) and whether there are any other matters of significance that it wants to draw to the attention of Cabinet or the portfolio holder

CABINET (HOUSING) COMMITTEE

19 SEPTEMBER 2012

HOUSING REVENUE ACCOUNT – REVISED 2012/13 BUDGET

REPORT OF HEAD OF HOUSING SERVICES

DETAIL:

1 Introduction

- 1.1 The Housing Revenue Account (HRA) budget approved by Council in February 2012 resulted in a projected year end surplus of £177,000 and a year end working balance of £1,646,000. This was adjusted to £1,957,000 as a result of the reduced year end cost of services for 2011/12 reported in CAB2354 (HSG) in June 2012.
- 1.2 This report proposes revisions to the 2012/13 budget to take account of current spending projections and of the decisions made at the June meeting regarding carry forwards and supplementary estimates (CAB2354 (HSG) refers). The cumulative effect of the changes is that the working balance at the end of 2012/13 is now estimated at £2,445,000.
- 1.3 Further consideration needs to be given to the appropriate level of the working balance. When the HRA Business Plan was originally prepared minimum revenue balances were set at £1.5m. There are increasing risks arising from welfare reform and the stock condition survey information is not yet available. It is therefore recommended that balances are retained at £2.4M at this time and that consideration be given to the appropriate level of balances as part of the budget process for 2013/14.

2 New Homes Delivery

- 2.1 A provision of £3.2 million towards the cost of the new build programme was approved within the 2012/13 budget. A development programme for new homes delivery was approved in June and whilst a number of schemes will commence in the current year, projections for actual expenditure total £600,000 for specific projects and £100,000 of revenue fees. Full details and financial projections for all current proposals will be considered by the New Homes Delivery Committee in October. This report takes account of the current spending projections for 2012/13.
- 2.2 It is inevitable that annual spending plans will not match to the annual availability of resources. In addition, in the early years it will take some time for schemes to be prepared for development. To deal with such “peaks and troughs” it is proposed that a “New Build Reserve” is established with a contribution of £2.5M using the resources available from 2012/13. Earmarking resources in this way will help to ensure future projects can be fully funded.

3 The Revised HRA Budget for 2012/13

- 3.1 The proposed revised budget detailed in Appendices 1 and 2 to this report incorporates a number of changes, including:
- a) HRA General – The Council has completed a comprehensive survey of tenant opinion every two years in line with the national “status” survey approach. This was a statutory requirement until 2011. Whilst no longer a statutory requirement, the Council does have to demonstrate how it is taking tenant opinion into account and it is proposed that we continue to complete the survey on a bi-annual basis. The previous “status” approach developed by the National Housing Federation has been replaced by the “Star” survey methodology now promoted as good practice by the Chartered Institute of Housing. The approach is comprehensive and systematic and is designed to maximise return rates. Previous surveys have all been undertaken and analysed by external contractors and it is recommended that this approach be taken again this year. Therefore, provision of £20,000 has been included to commission a survey to be completed in February 2013. In addition, a number of other minor changes have been made to reflect current projections across a number of supplies and services.
 - b) New Build Programme Support – The revenue budget for New Homes Delivery has been adjusted to reflect the provision for £100,000 to cover initial fees as agreed in PER216 dated 13 June 2012.
 - c) Homelessness – The adjustment of (£63,000) reflects increased income as a result of the increased numbers of residents in temporary accommodation.
 - d) Sewage Works – The original budget made insufficient provision for cesspool emptying, grounds maintenance and utilities costs.
 - e) Sheltered Housing – Report CAB2391 (HSG) elsewhere on this agenda makes reference to the potential of incurring “home loss payments” to residents moving from Victoria House Extra Care Scheme. This could amount to a total of £80,000 and it is recommended that provision for this be made within the 2012/13 budget. In addition, the original budget made no provision for the replacement of furniture and fittings to communal areas and it is recommended that an annual budget of £20,000 be introduced to improve the quality of furnishings at sheltered schemes. Provision for utilities has also increased to reflect the recent increases in gas and electric supply costs.
 - f) Interest Payable – The budget has been adjusted to reflect the savings in interest payments achieved as part of the self financing settlement.
 - g) Depreciation of Fixed Assets – The original budget included provision for depreciation based on the previous “major repairs allowance”.

Under self-financing there is a requirement to make a calculation of dwelling depreciation, which has to include an assessment of dwelling components e.g., kitchens and bathrooms. It was acknowledged by DCLG that it would take councils some time to develop such a system. There is therefore a 5 year period within which it is possible to use the enhanced “major repairs allowance” that was used in the self-financing settlement as a proxy for depreciation. The primary use of the cash associated with the calculation of depreciation is to fund capital expenditure on HRA dwellings. It may also be used to fund debt repayments but it cannot be used to fund any other items of revenue spending.

- h) Rents and Other Income – Current projections indicate that rent collection will be £100,000 more than originally budgeted. Garage income is likely to be slightly reduced and sheltered charges will also reduce as a result of a number of traditional sheltered schemes now being designated as general needs housing.
- i) Interest Receivable – The budget has been increased as more interest income is expected as HRA balances are higher than originally budgeted.
- j) Capital Expenditure Funded by HRA – Provision for funding the capital programme directly from the HRA has been reduced to reflect projected spend on new homes delivery and the increased provision for depreciation. As detailed in section 2 above, it is recommended that a New Build reserve be established to ensure resources are earmarked for that purpose as and when they can be funded.

4 Capital Programme

- 4.1 Appendix 4 details amendments to the capital programme required to account for previous decisions of this Committee (funding the stock survey, 2011/12 carry forwards and the supplementary estimate for estate improvements).
- 4.2 In addition, the Council has once again been successful in securing additional grant funding for renewable energy works. Department of Energy and Climate Change grant of £50,000 towards works to replace heating systems to properties in rural areas of the southern parishes with a mix of air source heat pumps, bio-mass boilers and solar thermal systems will allow additional investment to that originally planned. It is therefore recommended that the budget for heating systems be increased by £50,000, funded directly by this grant.
- 4.3 The Council’s latest Capital Strategy (CAB2378 dated 12 September 2012 refers) has agreed that the capital programme for improvements to housing sewage treatment works (£100,000 pa) be directly funded from the HRA instead of from capital receipts. This report incorporates the effect of this change.

5 Conclusion

- 5.1 The changes detailed in this report result in a significant increase in revenue balances in the current year. It is recommended that balances are retained at £2.4M at this time and that consideration be given to the appropriate level of balances as part of the budget process for 2013/14.
- 5.2 Revisions to the HRA Business Plan will be brought forward alongside rent increase and 2013/14 budget proposals for approval later in the year.

OTHER CONSIDERATIONS:

6 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

- 6.1 The proposals accord with the principles of making the best use of all available resources by continued clear financial planning.

7 RESOURCE IMPLICATIONS:

- 7.1 As detailed in the body of the report.

8 RISK MANAGEMENT ISSUES

- 8.1 Whilst more resources are available to fund HRA services than in previous years, the Council is facing a number of emerging challenges that it needs to consider and make provision for. The risk assessment relating to minimum revenue reserves has been updated to reflect issues such as Welfare Reform and uncertainty in relation to stock condition.
- 8.2 Welfare Reform proposals are currently being assessed, although a negative impact on future rental income is expected, at least initially when "direct payment" of universal credit is introduced. Whilst officers are confident that in general stock is in good condition, previous surveys only physically inspected 30% of homes. There is a strong possibility that a full 100% survey will reveal additional investment needs. Assessing the potential impact of both these issues is very difficult and subjective, although taking account of the potential impact in future planning is important.
- 8.3 The risk assessment detailed in Appendix 3 reflects both these issues as well as other known risks that could have a negative impact on resources. Further work on assessing the potential impact will be completed in the coming months as part of preparing the budget and updating the business plan for 2013/14. Consideration will be given as to whether the provision for balances in the HRA Business Plan is sufficient and recommendations on minimum balances will be made as part of that process.

9 TACT Comment

- 9.1 The proposals in this report are welcomed by TACT. TACT request that they be consulted at an early stage on proposals for services, the Business Plan and for rent increase for 2013/14

BACKGROUND PAPERS

None

APPENDICES:

- 1 HRA Revised Budget 2012/13 – Service Summary
- 2 HRA Revised Budget 2012/13 – Subjective Summary
- 3 HRA Working Balances – Risk Assessment
- 4 HRA Capital Programme

Housing Revenue Revised Account Budget 2012/13

Service Summary

| | 2012/13 Original Budget | 2012/13 Working Budget | 2012/13 Adjustments | 2012/13 Revised Budget | Notes |
|--|----------------------------|---------------------------|------------------------|---------------------------|-----------------|
| | £ | £ | £ | £ | |
| Housing Management General | | | | | |
| Estate Management | 717,271 | 761,470 | 2,000 | 763,470 | |
| HRA General | 1,471,869 | 1,487,179 | 39,000 | 1,526,179 | See para 3.1 a) |
| Joint Housing Register | 64,000 | 64,000 | 0 | 64,000 | |
| Removal Incentive Scheme | 6,000 | 6,000 | 0 | 6,000 | |
| Rent Accounting | 255,175 | 255,417 | 300 | 255,717 | |
| Tenants Information | 91,034 | 91,185 | 50 | 91,235 | |
| Vacant Dwellings | 33,292 | 33,292 | 0 | 33,292 | |
| New Build Programme Support | 360,000 | 240,000 | 95,597 | 335,597 | See para 3.1 b) |
| | 2,998,641 | 2,938,543 | 136,947 | 3,075,490 | |
| Housing Management Special | | | | | |
| Central Control | 106,644 | 107,276 | 700 | 107,976 | |
| Communal Services | (33,996) | (33,996) | 7,580 | (26,416) | |
| Disabled Adaptations | 39,502 | 39,502 | 0 | 39,502 | |
| Estate Maintenance | 298,506 | 358,286 | 0 | 358,286 | |
| Extra Care | 0 | 1,827 | 0 | 1,827 | |
| Homelessness | (22,168) | (21,868) | (62,950) | (84,818) | See para 3.1 c) |
| Sewage Works | 154,622 | 154,622 | 24,000 | 178,622 | See para 3.1 d) |
| Sheltered Housing | 1,142,925 | 1,147,092 | 110,050 | 1,257,142 | See para 3.1 e) |
| | 1,686,035 | 1,752,741 | 79,380 | 1,832,121 | |
| Repairs | | | | | |
| Repairs Administration | 1,168,666 | 1,537,838 | 3,950 | 1,541,788 | |
| Repairs Works | 3,860,000 | 3,860,000 | 0 | 3,860,000 | |
| | 5,028,666 | 5,397,838 | 3,950 | 5,401,788 | |
| Debt Management Expenses | 43,029 | 43,029 | 0 | 43,029 | |
| Interest Payable | 6,064,333 | 6,064,333 | (744,407) | 5,319,926 | See para 3.1 f) |
| Depreciation of Fixed Assets | 3,881,201 | 3,881,201 | 1,718,347 | 5,599,548 | See para 3.1 g) |
| | 9,988,563 | 9,988,563 | 973,940 | 10,962,503 | |
| Rents and Other Income | | | | | |
| Dwelling Rents | (23,530,000) | (23,530,000) | (100,000) | (23,630,000) | See para 3.1 h) |
| Garage Rents | (830,000) | (830,000) | 17,000 | (813,000) | |
| Other Income | (239,000) | (239,000) | 0 | (239,000) | |
| Sheltered Charges | (534,305) | (534,305) | 22,000 | (512,305) | |
| Supporting People | (608,620) | (608,620) | 0 | (608,620) | |
| Interest Receivable | (29,416) | (29,416) | (9,000) | (38,416) | See para 3.1 i) |
| | (25,771,341) | (25,771,341) | (70,000) | (25,841,341) | |
| Surplus for year on HRA Services | (6,069,436) | (5,693,656) | 1,124,217 | (4,569,439) | |
| Capital Expenditure funded by HRA | 5,825,799 | 5,825,799 | (4,310,347) | 1,515,452 | See para 3.1 j) |
| Net (increase)/decrease in HRA Balance before transfers to or from reserves | (243,637) | 132,143 | (3,186,130) | (3,053,987) | |
| Transfer re New Build Reserve | | | 2,500,000 | 2,500,000 | See para 2.1 |
| Transfer re Insurance Reserve | 66,300 | 66,300 | 0 | 66,300 | |
| (Increase)/ decrease in HRA Balance | (177,337) | 198,443 | (686,130) | (487,687) | |
| HRA Working Balance | | | | | |
| Opening Balance | (1,468,295) | (1,957,358) | | (1,957,358) | |
| Add Projected Deficit/(Surplus) | (177,337) | 198,443 | | (487,687) | |
| Projected Balance at Year End | (1,645,632) | (1,758,915) | | (2,445,045) | |

Housing Revenue Account Revised Budget 2012/13 Subjective Summary

| | 2012/13 Original Budget £ | 2012/13 Working Budget £ | 2012/13 Adjustments £ | 2012/13 Revised Budget £ |
|--|---------------------------------|--------------------------------|-----------------------------|--------------------------------|
| Employees | 3,070,405 | 3,236,012 | 0 | 3,236,012 |
| Premises | 5,108,492 | 5,168,272 | 41,580 | 5,209,852 |
| Transport | 266,888 | 270,194 | 0 | 270,194 |
| Supplies & services | 456,900 | 737,303 | 235,597 | 972,900 |
| Third party payments | 61,000 | 61,000 | 0 | 61,000 |
| Support Services | 1,749,966 | 1,678,250 | 8,100 | 1,686,350 |
| Net Interest | 6,059,007 | 6,059,007 | (753,407) | 5,305,600 |
| Depreciation on Fixed Assets | 3,881,201 | 3,881,201 | 1,718,347 | 5,599,548 |
| External income | (26,723,295) | (26,784,895) | (126,000) | (26,910,895) |
| Surplus for year on HRA Services | (6,069,436) | (5,693,656) | 1,124,217 | (4,569,439) |
| Capital Expenditure funded by HRA | 5,825,799 | 5,825,799 | (4,310,347) | 1,515,452 |
| Net (increase)/decrease in HRA Balance before transfers to or from reserves | (243,637) | 132,143 | (3,186,130) | (3,053,987) |
| Transfer re New Build Reserve | | | 2,500,000 | 2,500,000 |
| Transfer re Insurance Reserve | 66,300 | 66,300 | 0 | 66,300 |
| (Increase)/ decrease in HRA Balance | (177,337) | 198,443 | (686,130) | (487,687) |
| HRA Working Balance | | | | |
| Opening Balance | (1,468,295) | (1,957,358) | | (1,957,358) |
| Add Projected Deficit/(Surplus) | (177,337) | 198,443 | | (487,687) |
| Projected Balance at Year End | (1,645,632) | (1,758,915) | | (2,445,045) |

HRA Working Balances - Risk Assessment

| Risk | Potential | Total Impact on HRA | Risk Provision | Comment |
|---|------------------|----------------------------|-----------------------|---|
| Impact of Welfare Reform | 35% | 1,500,000 | 525,000 | Direct payment likely to increase arrears |
| Stock Survey - Increased Disrepair | 30% | 5,000,000 | 1,500,000 | 100% survey likely to reveal additional works |
| Unforeseen uninsured losses | 10% | 1,000,000 | 100,000 | Could include storm damage, building failure etc |
| Increased demand for responsive repairs | 15% | 500,000 | 75,000 | A "demand driven" service |
| Lost rent through increased voids | 20% | 250,000 | 50,000 | Reliant on contractor performance |
| Overheads increase above inflation | 25% | 100,000 | 25,000 | Significant changes in recent years so risk is high |
| Garage voids increase by 20% | 25% | 100,000 | 25,000 | Very high risk due to proposed rent increases |
| Loss of 30% lifeline contracts | 25% | 50,000 | 12,500 | Increased charges will impact on competitiveness |
| Loss of Supporting People Contracts | 10% | 600,000 | 60,000 | |

Minimum Provision = £ 2,372,500

Housing Revenue Account Capital Budget 2012/13

| | Original Capital Budget for 2012/13 | Adjustments/Revisions | Revised Capital Budget for 2012/13 | |
|--|---|-----------------------|---|--|
| Responsive Maintenance | | | | |
| Other (non-Term) | 130,000 | | 130,000 | |
| Cyclic Maintenance | | | | |
| Internal redecorations/discretionary works | 200,000 | | 200,000 | |
| Planned Improvement and New Build Works | | | | |
| External envelope works | 1,200,000 | - 300,000 | 900,000 | CAB 2357 approved virement to fund Stock Survey |
| Window/door/screen replacements | 500,000 | | 500,000 | |
| Misc external works (within dwelling boundary) | 250,000 | | 250,000 | |
| Lift refurbishment (Richard Moss) | 60,000 | | 60,000 | |
| Kitchen/bathroom renewals | 1,900,000 | | 1,900,000 | |
| Heating systems replacement & assoc.wks. | 1,400,000 | 50,000 | 1,450,000 | £50k capital grant received to support renewable heating scheme |
| Fire risk assessments and associated works | 80,000 | | 80,000 | |
| Miscellaneous internal works | 130,000 | | 130,000 | |
| Garage sites/other non-dwelling related assets | 120,000 | | 120,000 | |
| Non-traditional dwellings | 30,000 | | 30,000 | |
| Underground services | 50,000 | | 50,000 | |
| Environmental Improvements | 250,000 | 300,000 | 550,000 | CAB2354 approved additional works funded from increased balances |
| Disabled Adaptation works | 800,000 | | 800,000 | |
| Sheltered Housing Upgrades | 200,000 | | 200,000 | |
| Sewage Treatment Works | 100,000 | | 100,000 | See para 4.3 |
| New Build/Stock Improvements | 3,200,000 | - 2,600,000 | 600,000 | £2.5m to be transferred to "New Build Reserve" - see para 2.1 |
| Total Maintenance and Renewal Programme | 10,600,000 | - 2,550,000 | 8,050,000 | |
| Orchard System Upgrade | 20,000 | 20,000 | 40,000 | Carry Forward approved in CAB2354 |
| Asset Management Solution | | 51,000 | 51,000 | Carry Forward approved in CAB2354 |
| Total HRA Capital Budget for 2012/13 | 10,620,000 | - 2,479,000 | 8,141,000 | |