

REPORT TO: THE MORAY COUNCIL ON 11 FEBRUARY 2010

SUBJECT: HOUSING REVENUE ACCOUNT BUDGET 2010/11

BY: DIRECTOR OF COMMUNITY SERVICES

1. REASON FOR REPORT

- 1.1 This report presents the Housing Revenue Account (HRA) Budget and Housing Investment Strategy for 2010/11 to the Council for approval.
- 1.2 This report is submitted to the Council in terms of the Council's Administrative Scheme relating to the setting of rent levels for council houses, garages etc.

2. RECOMMENDATION

2.1 It is recommended that the Council:-

- (i) **agrees the proposed HRA Budget (APPENDIX I) and Investment Strategy (APPENDIX II);**
- (ii) **agrees the three year projection to 2013 (APPENDIX III);**
- (iii) **agrees service development proposals amounting to £0.015m;**
- (iv) **agrees that any slippage from 2009/10 is carried forward to 2010/11;**
- (v) **agrees that council house rents are increased by 3.5%;**
- (vi) **agrees that hostel rents are increased by 3.5%;**
- (vii) **agrees that garage rents are increased by 7% (this is a two yearly increase);**
- (viii) **agrees that service charges for temporary accommodation are increased by 3.5%; and**
- (ix) **agrees that grass-cutting charges are increased by 3.5%.**

3. BACKGROUND

- 3.1 The Housing Revenue Account (HRA) deals with expenditure and income for the Council's housing stock. As part of the process of preparation of the Council's Standard Delivery Plan for Communities Scotland in April 2005, the Council agreed a Housing Business Plan over a 30 year period (paragraph 9 of the Minute refers). The broad gist of the Business Plan was that the Council

could achieve the level of investment required to meet the Scottish Housing Quality Standard and the higher Moray Housing Standard, whilst retaining rent increases at inflation plus 1% for all but four years of the Business Plan.

- 3.2 The Business Plan has been regularly updated since 2005. In 2009, further work was carried out which indicated that the Council can continue to manage and maintain its housing stock to required standards, within the overall context of affordable rent increases. Furthermore, the review indicated that the Council can fund a modest programme of Council house new build.

4. PROJECTED OUTTURN 2009/10

- 4.1 The Council agreed its HRA Budget for 2009/10 on 12 February 2009 (paragraph 7 of the Minute refers). The Communities Committee has received reports on budgetary performance throughout 2009/10.

- 4.2 The last housing budget monitoring report presented to the Communities Committee on 1 December 2009 identified that there were some areas of the budget which were under pressure – response repairs, gas servicing and hostel provision (paragraph 11 of the Minute refers). At present, Officers have particular concerns about the response repairs budget, which currently is over committed at this point of the year. Although actions were taken in December 2009 to seek to ensure that any overspend on this budget is minimised, the severe weather in late December 2009 and January 2010 may have an adverse impact on budgetary spend. The budgetary position continues to be closely monitored.

- 4.3 The December 2009 outturn projection allowed for a level of Capital from Current Revenue (CFCR) in 2009/10 at £1.090m. The Housing Business Plan assumes that the level of CFCR will be influenced by actual budgetary performance and could therefore be varied in the light of the draft final outturn. Increasing the level of CFCR has the positive effect of reducing the prudential borrowing requirement for the HRA in the year.

- 4.4 The projected outturn for 2009/10 envisages that a surplus of £0.064m is achieved at the year end.

5. BUDGET PROPOSALS FOR 2010/11

- 5.1 Officers in the Housing Service have considered the base budget agreed for 2009/10 in detail, in consultation with Finance staff. Each cost centre within the HRA Budget is scrutinised with the Budget Manager on a line by line basis. As part of the budget preparation process within the Council, Officers adopt a measure for pay increases. For 2010/11, this has been assumed at 1.5%, but may be subject to revision dependent upon the outcome of negotiations at a national level.

- 5.2 **APPENDIX I** details the proposed HRA Budget for 2010/11. Comments on the proposed budget can be made as follows –

5.3 Expenditure

- 5.3.1 The total expenditure proposed amounts to £13.262m.
- 5.3.2 The Housing Business Plan assumes that day to day/cyclic etc repairs expenditure will be met from rental income. For longer term investment, the Business Plan assumes that the Council will utilise all unspent resources on longer term maintenance to meet the Scottish Housing Quality Standard and Moray Housing Standard. It also assumes that the Council will utilise capital receipts from sales of houses/land (after set-aside) with the balance being met through prudential borrowing. The Council's Investment Plan for 2010/11 and beyond is therefore a significant factor in the proposals for the HRA Budget.
- 5.3.3 The draft Investment Plan is detailed in **APPENDIX II** and has been considered by the Housing Sub Committee at its meeting on 10 December 2009. The proposals within the draft Strategy are reflected in the HRA Budget proposals and indicate investment of £5.431m from the HRA in the continued repair and maintenance of the Council's housing stock. For 2010/11, it is proposed to continue to set aside £0.250m in the Council's Reserve Fund to assist in dealing with any costs arising from any future flooding event. This will be reviewed as the proposals for the Elgin Flood Alleviation Scheme progress.
- 5.3.4 The Investment Plan 2010/11 indicates continued provision of Capital from Current Revenue (CFCR) at £1m to fund capitalised improvement works – mainly kitchen, heating, door/window renewals and disability adaptations. This level of CFCR will be reviewed during the year and at the year end to ensure that the level of prudential borrowing is minimised.
- 5.3.5 The Council's hostel budget has been revised to reflect the planned closure of the Cluny Annexe in Buckie, following the reprovisioning of this facility through the leasing of flats in the Langstane Housing Association development in Buckie. The accommodation provided in the Cluny Annexe fell short of acceptable standards. It is being replaced with self contained accommodation within a wider housing development, and thus can no longer be considered as 'hostel' accommodation. Any saving to the HRA will be offset in due course by a reduction in the Hostel Support Grant received from the Scottish Government.
- 5.3.6 The budget for Bad and Doubtful Debts comprises debts written off and year end provision made for bad debts. This covers both rent and rechargeable repair debts. The budgeted level of provision has been increased to reflect the level of provision made in previous years.
- 5.3.7 The Designing Better Services (DBS) Programme aims to achieve efficiency savings across the Council by changing the way in which services are delivered and supported. The Housing Service has the potential to benefit from the changes being developed within the programme which is funded from the Council's General Services Account. Implementation of the changes

will require further investment in financial terms and support from ICT, Personnel and the DBS Team. In light of the Council's investment in the development and implementation of these changes, it is proposed that provision is made in the HRA from 2010/11 to transfer initial efficiency savings arising from the DBS Programme to the General Services Account.

- 5.3.8 While the savings to the HRA have not yet been quantified or achieved, it is projected that a transfer of around £0.250m may be made to the General Services Account for 2010/11, 2011/12 and 2012/13 based on a quantification of the actual efficiency savings achieved over this period. This transfer will be offset by savings elsewhere in the HRA Budget and should therefore be cost neutral. It is also suggested that future provision is made for DBS programme savings to the HRA beyond 2013 to be transferred to the General Services Account annually on a decreasing basis for a limited period of time. The Council's Chief Financial Officer is in agreement with this proposal and recognises that there are specific pressures on the HRA Budget arising from the Council's landlord role and the separate accounting arrangements that exist for HRA Budgets. It is suggested that this provision is reviewed annually as part of the HRA Budget process.

5.4 **Income**

- 5.4.1 The total income projected for 2010/11 is £13.391m. This assumes a 3.5% increase in rents and other charges. A 3.5% rent increase equates to an average increase of £1.54 per week on Council house rents (on the basis of 48 rent weeks) and would result in an average Council house rent (based on 48 weeks) for 2010/11 of £45.41. It also assumes a level of 40 Council house sales during 2010/11 and that the 48 Council new build properties are let from January 2011. The income projected from Council new build has been assumed at the level agreed by the Communities Committee on 6 October 2009 as the basis for consultation with tenants (paragraph 10 of the Minute refers). A separate report on the Committee's agenda provides feedback on the outcome of consultation on this issue.
- 5.4.2 The projected income to the Council for Hostel Support Grant has been assumed at 2009/10 levels for 2010/11. Due to the closure of the Cluny Annexe in early 2010, this will be reviewed for 2011/12 and beyond, but may be offset by additional budgetary provision for the remaining Council hostels.
- 5.4.3 The HRA budget proposals also reflect that the Building Services DLO surplus will be returned to the General Services budget from 2010/11. This results in a projected reduction in income to the HRA of approximately £0.250m. Income from Interest on Revenue Balances (IORB) is budgeted to continue at its projected outturn level in 2009/10 due to low interest rates. These two factors account for a reduction in income of £0.386m from the budgeted levels in 2009/10.
- 5.4.4 Other income has been updated to include the recharges made to tenants for rechargeable repairs. Expenditure on these repairs is recharged with a 10% administration fee, in line with the Council's Rechargeable Repairs Policy. The

budgeted income level has been reviewed and increased in line with previous year end outturns.

- 5.5 As in previous years, comments from tenants on proposals for rent increases were sought in the Winter (December 2009) edition of the Tenants Voice Newsletter. The proposals for a rent increase were based on the continuing level of build costs inflation which, for several years, has been in excess of the general inflation rate. As almost 50% of expenditure within the HRA relates to repairs and maintenance, this level of building cost inflation has an effect on the HRA budget, and contributes to some of the pressures identified within the HRA repairs and maintenance budgets. At the time of writing this report, no responses on the proposed rent increase had been received.
- 5.6 Notwithstanding the proposed increase in rents, it is expected that Moray Council house rents will remain among the lowest in Scotland.
- 5.7 **APPENDIX III** indicates a three year projected budget. A number of assumptions underpin these projections (eg the level of Council house sales, borrowing costs etc). In the current climate, it is increasingly difficult to project future trends and therefore all assumptions within the three year projection will be monitored closely during 2010/11. In addition, any future Council new build programme will impact on the projections for 2011/12 and beyond.

6. PROPOSALS FOR SERVICE DEVELOPMENTS IN 2010/11

- 6.1 The priority within the budget proposals is to maintain the level of investment required to meet statutory requirements in relation to the quality of the Council's housing stock.
- 6.2 The Scottish Housing Regulator (SHR) expects that the Council seeks the views of its tenants on the quality of the housing services it provides. In its inspection report on the Council's housing services, the SHR commented favourably on the Council's approach to this, with the use of a three yearly tenant survey. In February 2010, the Housing Sub Committee will consider a report which will consider the three yearly survey and alternative approaches. In the meantime, non recurring budgetary provision of £0.015m is proposed for 2010/11.

7. SUMMARY OF IMPLICATIONS

(a) Single Outcome Agreement/Service Improvement Plan

The proposals in this report reflect the Single Outcome Agreement and the Housing Service Improvement Plan priority to provide a quality housing service.

(b) Policy and Legal

There are no policy or legal implications arising from this report.

(c) Resources (Financial, Risks, Staffing and Property)

The financial implications of the budgetary proposals are considered throughout this report. Details of budget proposals are included within the Appendices. In summary, the proposed 2010/11 HRA Budget is projected to result in a surplus of £0.129m, in addition to any carried forward balance from 2009/10.

(d) Consultations

This report has been developed with the assistance of and in close consultation with the Council's Finance Service. Consultation on this report has been carried out with the Chief Executive, the Chief Financial Officer, the Director of Community Services, senior managers in the Housing Service and Deborah Bosworth (Principal Accountant). The draft Housing Investment Plan was considered by the Housing Sub Committee at its meeting on 10 December 2009. Consultation with tenants on rent increase proposals was carried out through an article in the Winter (December) edition of the Tenants Voice Newsletter.

8. CONCLUSION

- 8.1 This report presents the Housing Revenue Account Budget proposals for 2010/11, with a projection to 2012/13. Although surpluses are projected, the report highlights the continuing pressure on repairs and maintenance budgets within the HRA.**

Author of Report:	Jill Stewart, Chief Housing Officer
Background Papers:	Held by CHO
Ref:	TMC/JS/TS – HRA Budget – 11 February 2010