

REPORT TO: THE MORAY COUNCIL ON 10 FEBRUARY 2011

SUBJECT: HOUSING REVENUE ACCOUNT BUDGET 2011/12

BY: DIRECTOR OF COMMUNITY SERVICES

1. REASON FOR REPORT

- 1.1 This report presents the Housing Revenue Account (HRA) Budget and Housing Investment Plan for 2011/12 to the Council for approval.
- 1.2 This report is submitted to Committee 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 Housing Investment Plan (APPENDIX II);
- (ii) notes the three year projection to 2014 (APPENDIX III);
- (iii) agrees service development proposals amounting to £0.060m;
- (iv) agrees that any slippage from 2010/11 is carried forward to 2011/12;
- (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 site 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 thrust 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, with the last comprehensive updating carried out in the latter half of 2009. The consultants advising the Council on the Housing Business Plan were also consulted in early 2010 prior to the Council's submission of its council house new build bid in April 2010. At that time, the consultants confirmed that the proposals for additional borrowing to fund further new building were feasible.

4. PROJECTED OUTTURN 2010/11

- 4.1 The Council agreed its HRA Budget for 2010/11 on 11 February 2010 (paragraph 9 of the Minute refers). The Communities Committee has received reports on budgetary performance throughout 2010/11.
- 4.2 The last housing budget monitoring report presented to the Communities Committee on 7 December 2010 identified variations in the projected outturns as –

Supervision and management – an underspend of £0.369m was projected, primarily as a result of staff vacancies, but also a number of other savings including IT development, buildings insurance and leaflet publication. The level of staff vacancies in 2010/11 has been higher than normal as a result of the implementation of transitional arrangements to ease the impact of the projected DBS changes. This projection has now increased to £0.382m, as a result of savings achieved through the integration of housing, property and estates services during 2010/11. These are reflected in a new budget line to identify the HRA contribution to DBS savings.

Hostels – an overspend of £0.033m was projected as a result of staffing costs, gas heating and repairs expenditure. The impact of this overspend is mitigated by the higher than projected level of Hostel Support Grant received for 2010/11.

Financing costs – an overspend of £0.129m was projected on this budget, reflecting the additional borrowing costs to be incurred during 2010/11 for Phase 2 of the council house new build project.

Service Development – the projected underspend in this budget resulted from the earlier decision to defer the three yearly tenant survey until 2011/12 to accommodate the Designing Better Services work being carried out in the Housing and Property Service.

- 4.3 At the same time, the report to the Communities Committee identified that pressures were being faced in the repairs and maintenance budget, particularly arising from empty house repairs. The report also identified the potential for overspend in the event of adverse winter weather.
- 4.4 As at December 2010, the projected surplus on the HRA at the year end was £1.575m. Any overspend on repairs and maintenance budget would reduce this level of surplus. The report identified that further consideration would be given to the level of Capital from Current Revenue (CFCR) to be applied at the year end. This would have the effect of reducing the HRA borrowing requirement. As the next phase of council house new building will commence by the end of March 2011, it is considered prudent to minimise borrowing.
- 4.5 As the Council is aware, the HRA cannot operate in deficit. In accordance with the agreed Business Plan, a minimum surplus of £0.500m will be carried forward into 2011/12. It is considered prudent to carry forward a higher level of surplus than the minimum recommended, due to the potential risks associated with pressure on the repairs and maintenance budget and the potential impact of adverse weather.

5. BUDGET PROPOSALS FOR 2011/12

- 5.1 As in previous years, Officers have considered the base budget agreed for 2010/11 in detail, in consultation with Finance staff. Each cost centre within the HRA budget is scrutinised by the budget manager on a line by line basis. It is worth noting that the HRA Budget preparation for 2011/12 has been carried out in the context of changes to the way in which the Housing and Property Service is structured, as a result of the integration of the housing, property and estates functions into one service which was effected by October 2010. In addition, further significant changes will be effected during 2011/12 as a result of the implementation of DBS Tranche 2 across the Service.

- 5.2 **APPENDIX I** details the proposed HRA Budget for 2011/12. Comments on the proposed budget can be made as follows:-

5.3 Expenditure

- 5.3.1 The total expenditure proposed amounts to £13.924m. The main areas of expenditure are considered below.

Supervision and management

- 5.3.2 Supervision and management costs are budgeted at £3.593m. This reflects the HRA savings of £0.026m achieved in the integration of housing, property and estates and projected savings of £230k attributable to the HRA in Tranche 2 of the DBS programme. A separate budget line indicates the HRA's contribution to the DBS savings. While it is confidently projected that savings in the order of the original projections will be achieved, the timing of these savings is largely dependent upon the progress in implementing the DBS Core Projects. It is proposed that a quarterly review of the position regarding

DBS savings is presented to the Communities Committee as part of the budget monitoring reports presented to that Committee.

- 5.3.3 As a result of the Sheltered Housing Review agreed by the Communities Committee at its meeting on 12 October 2010 (paragraph 20 of the Minute refers), savings of £0.072m were achieved for General Services. A significant element of these savings was the transfer of funding of £0.055m for housing management related duties carried out by sheltered housing wardens. These costs have been transferred to the supervision and management budget within the HRA. The Sheltered Housing Review indicated that further consideration would be given to how these costs were funded within the HRA. Currently, all housing management costs are 'pooled' across all HRA properties. It is proposed that this arrangement is applied to these costs, resulting in an increase of the budgetary provision required to meet housing management costs within the HRA. This position results in an equitable treatment of all tenants in relation to housing management costs.

Hostels

- 5.3.4 The projected outturn in 2010/11 for hostels indicates an overspend of around £0.033m, although the impact of this has been offset by higher than projected levels of Hostel Support Grant received from the Scottish Government. This budget has been under pressure for some years. Consequently, the proposed budget reflects an increase in budgetary provision of £0.034m to address these pressures.

Transfer to Flood Reserve

- 5.3.5 Provision has been made since 2003/04 to transfer £0.250m annually to the Flood Repairs Fund primarily to offset the impact of any flood event for which the Council currently carries an insurance excess of £5m. This reserve funded the remedial works and temporary housing costs associated with the flood experienced in September 2009, with no financial impact on either the HRA or General Services budgets. Following discussion with the Chief Financial Officer, it is projected that the requirement for this provision will cease in 2012/13. This position is reflected in the three year projections but will be reviewed as part of the HRA budget preparation for 2012/13.

Repairs and maintenance

- 5.3.6 Repairs and maintenance is the largest block of expenditure within the HRA. The level of expenditure proposed reflects the detailed draft Housing Investment Plan (**APPENDIX II**). Budgetary provision of £5.280m will enable the Council to continue to make progress in meeting the Scottish Housing Quality Standard and Moray Housing Standard in its housing stock.

Financing costs

- 5.3.7 There will be an increase of £0.559m in 2011/12 in financing costs as a result of the council house new build programme. The increased financing costs will be offset by an increase in rental income. It is intended that repayment timescales for future borrowing are reviewed during 2011/12.

Bad and doubtful debts

- 5.3.8 Budgetary provision for bad and doubtful debts in 2011/12 is proposed at the same level as 2010/11.

Capital from Current Revenue (CFCR)

- 5.3.9 The Housing Investment Plan sets out the repairs and maintenance proposals for the Council's housing stock in 2011/12. These will be financed through the HRA revenue and capital budgets. CFCR enables the Council to utilise available revenue resources to assist in the funding of capital projects and thus reduce the requirement for prudential borrowing. For 2011/12, the HRA budget envisages a minimum level of CFCR of £1.296m. This level will be reviewed at near actual outturn stage in April 2012, in the light of actual budgetary performance in 2011/12.

Service Developments

- 5.3.10 Proposals for expenditure under this heading are considered in Section 6 of this report.

5.4 Income

- 5.4.1 The total projected income for 2011/12 is £13.924m. This assumes a 3.5% increase in rents and other charges. A 3.5% rent increase equates to an average rent increase of £1.59p per week on council house rents (on the basis of 48 rent weeks). Such an increase would result in an average council house rent (based on 48 weeks) for 2011/12 of £47.18p per week. The projected income assumes a level of 40 Council house sales during 2011/12. It assumes that the 124 Council new build properties are let from March 2012 therefore income from these is not assumed within the rental income projection for 2011/12.
- 5.4.2 Consultation with tenants on a proposed 3.5% rent increase was carried out through an article in the winter edition (December 2010) of the Tenants Voice newsletter. Only one letter in response to this was received.
- 5.4.3 Increases in charges for hostel rents, service and grass cutting charges are proposed at 3.5%. Increases in garage site rents of 7% are proposed (this is a two yearly increase).
- 5.4.4 The projected income to the Council for Hostel Support Grant has been based on the Hostel Support Grant calculation methodology and is assumed at £0.450m, in line with Scottish Government estimates.
- 5.4.5 Surplus from the Building Services Trading Account was routed to the General Services budget from 2010/11. This will continue to be the case in 2011/12 and will result in a loss of income to the HRA of around £0.250m.

6. PROPOSALS FOR SERVICE DEVELOPMENTS IN 2011/12

- 6.1 The 2010/11 HRA Budget contained provision to enable the Council to carry out its three yearly survey of tenants. The Scottish Housing Regulator

commented favourably on the Council's approach to seeking the view of its tenants on the quality of the housing services it provides. Due to the inclusion of the Housing and Property Service as Tranche 2 of the DBS programme, it was agreed that the survey would be deferred until 2011/12, which would allow the survey to assess tenant satisfaction with the new ways of working introduced as part of the DBS programme. No expenditure was incurred on this activity in 2010/11, resulting in a saving to the HRA budget in 2010/11. It is therefore proposed that £0.015m is included as a service development in 2011/12.

- 6.2 On 17 December 2010, the Housing Sub Committee were to consider a report on the review of the tenants handbook on 17 December 2010, however this meeting was cancelled due to the adverse weather on that day. The Council issued a handbook to all tenants in 2002. This is regarded as good practice. Work to update and revise the handbook was carried out in 2009 but a new handbook was not issued at that time, as alternative formats (primarily a DVD version) were being considered. It has been concluded that such an alternative format is not feasible, given the extent of information contained in the handbook. At the same time, the Council's housing services were included within Tranche 2 of the DBS programme and this will result in some changes to the way that tenants might access services.
- 6.3 A service development is proposed to enable the production and distribution of a paper copy handbook, reflecting revised procedures. In addition, a number of the Council's information leaflets for tenants and housing applicants will also require revision with revised ways of working resulting from the DBS Programme. It is proposed that £0.025m should be identified for the purposes of issuing an updated Tenants Handbook and updating leaflets.
- 6.4 The Council is required to implement Gas Safety Regulations to ensure that servicing of all gas appliances is carried out annually. The Housing and Property Service currently relies on a bespoke database to capture the servicing records of all properties where gas appliances are fitted. In the medium to long term, there are risks associated with this database. Options to address these risks have been considered. As a result, it is proposed that the bespoke database is replaced by the purchase of a license for the Servitor Planned Servicing (Gas) module. The total cost in 2011/12 would be £0.020m, with an annual support cost recurring in future years of £0.002m. Purchase of this module would enable improvements in the management of gas servicing and eradicate the risks associated with the bespoke database.
- 6.5 The total cost of the service developments proposed would amount to £0.060m and is reflected in the budget proposed in **APPENDIX I**.

7. THREE YEAR PROJECTION

- 7.1 A three year projection for the HRA budget is provided in **APPENDIX III**. While this is provided for indicative purposes at this stage, the Council will

note the projected continued reduction in supervision and management costs in 2012/13, as a result of implementation of the Change Management Plan for DBS Tranche 2. These will be offset by the DBS contribution from the HRA to the Council's General Services.

- 7.2 A continued increase in the HRA's financing costs is projected in 2012/13, as a result of the new build council housing programme. At the same time, the use of CFCR will be maximised to minimise borrowing.
- 7.3 Some caution is required in relation to the indicative level of surplus in the HRA over the period to 2013/14. As mentioned in paragraph 4.4, any overspend on repairs and maintenance expenditure in the current year will reduce the level of surplus carried forward. In addition, as indicated in paragraph 4.4, the level of CFCR in 2010/11 will be reviewed in the light of the near actual outturn in April 2011. This could further reduce the surplus carried forward. It is considered prudent that the HRA makes provision in future years to utilise higher levels of CFCR to mitigate the risks posed by a continuing reduction in council house sales and any increase in interest rates. Reducing debt levels will also provide scope for consideration of further new build programmes.
- 7.4 It is intended that a review of the Housing Business Plan is carried out during 2011/12.

8. 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) Financial Implications

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 2011/12 HRA Budget is projected to balance, with a balance from 2010/11 being carried forward.

(d) Risk Implications

Any risks associated with the budget proposals are identified in this report.

(e) Staffing Implications

There are no staffing implications arising from this report.

(f) Property

None

(g) Equalities

There are no equalities issues to consider in this case.

(h) 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, the Housing Services Manager, the Housing Needs Manager, the Asset Manager and the Principal Accountant (Deborah O'Shea). Consultation with tenants on rent increase proposals was carried out through an article in the Winter (December) 2010 edition of the Tenants Voice newsletter.

9. CONCLUSION

- 9.1 This report presents the HRA Budget proposals for 2011/12, with a three year projection to 2013/14. The budget proposals compare favourably to the current year's budget, with a projected decrease in the supervision and management costs. The main area of budgetary increase relates to financing costs which reflect the Council's commitment to new build council housing.**

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Background Papers:	Held by author
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