

**FLINTSHIRE COUNTY COUNCIL**

**REPORT TO:**           **CABINET**

**DATE:**                 **21<sup>ST</sup> JANUARY 2014**

**REPORT BY:**         **HEAD OF FINANCE, DIRECTOR OF COMMUNITY SERVICES AND HEAD OF HOUSING**

**SUBJECT:**           **HOUSING REVENUE ACCOUNT 2014/15 & CAPITAL PROGRAMME 2014/15**

**1.00    PURPOSE OF REPORT**

- 1.01    To consider the Housing Revenue Accounts (HRA) budget as set out in 1.02 and 1.03.
- 1.02    Revenue budget proposals for the 2014/15 financial year, including proposed rent and service charge changes, key areas of income and expenditure, and the level of closing balance at the year end.
- 1.03    Budget proposals for the HRA Capital programme 2014/15, which is year three of a six year improvement programme.
- 1.04    To note the impact of the proposed revenue budget and capital programme on the HRA 30 year Business Plan.
- 1.05    To propose that the HRA revenue and capital proposals be referred to Housing Overview and Scrutiny Committee on 21<sup>st</sup> January for feedback to Cabinet in February.

**2.00    BACKGROUND**

- 2.01    As the Council has a stock of Council housing, it is required by the Local Government and Housing Act 1989 to keep a HRA in accordance with proper accounting practices, and to budget to avoid an end of year deficit.
- 2.02    The HRA is a “ring-fenced” account of certain defined transactions relating to Local Authority Housing. The ring-fenced nature of the account means that funding cannot be transferred between the Council Fund and HRA or vice versa, other than in certain prescribed circumstances.
- 2.03    Although there is a legal requirement to avoid an end of year deficit, it is also considered to be good practice to budget for a closing balance of at least 3% of total expenditure of the HRA.

- 2.04 Prior to the start of each financial year, the Welsh Government (WG) consults with Local Authorities on the draft HRA subsidy and Item 8 determinations. These are the key financial determinations set each year by WG which influence Local Authority rent increases, and also the amount of HRA subsidy payable by the council. The two main elements of the consultation are the “guideline rent increase” and the Management and Maintenance (M&M) element of the HRA subsidy.
- 2.05 The management and maintenance allowance element of HRA subsidy is the amount which WG considers each Local Authority requires per HRA dwelling to manage and maintain the housing stock held within the HRA.

### **New Rent Policy for Wales and exit from the HRA subsidy system**

- 2.06 2014/15 is anticipated to be the final year under the current rent and subsidy system in Wales. A new welsh rent policy has been developed by WG and will be introduced in April 2015 in line with the exit from the subsidy system of all Councils who continue to have a housing stock and so maintain a Housing Revenue Account.
- 2.07 The current rent policy in Wales has developed in varying ways over a long period, producing markedly different levels and profiles of rents across the country and between the local authority and housing association sectors.
- 2.08 Following consultation with social landlords, WG have developed a consistent rent policy framework that will apply to all social landlords providing for a more equal distribution of rents for social sector tenants across Wales.
- 2.09 The new rent policy will be introduced in April 2015 and will allow for the convergence of rents for both local authority and registered social landlords. The rent policy sets a target rent band for each landlord and landlords will be required to operate with average weekly rent levels that fall within the scope of those bands. The banding is 5% above or below the target rent.
- 2.10 Where a landlord’s weekly rent is higher than the target rent band, the landlord will be expected to increase its rents more slowly e.g. at 0.5% less than the rate of rent increases for the sector as a whole until the average weekly rent falls within the target rent band.
- 2.11 Where a landlord’s weekly rent is lower than the target rent band, transitional protection will apply to tenants. In any year a landlord will not be permitted to increase the rent for any individual tenant by more than £2 per week in addition to the agreed average annual rate of rent increases for the sector as a whole.

- 2.13 The introduction of the new rents policy will also mark the end of the current subsidy system where the HRA returns an element of its rents back to WG (Currently £6.0m for Flintshire) each year. Stock owning local authorities will 'buy out' of the system via a one off payment to HM Treasury funded from HRA prudential borrowing. It is anticipated that the change will be advantageous for Councils. WG agreed the principle of the exit from the subsidy system in June 2013 and the details of how this will be brought into place across Wales are being developed. Further reports will be brought to Members, when the details are known.

### **3.00 CONSIDERATIONS**

#### **REVENUE BUDGET 2014/15**

- 3.01 The WG consultation letter on the Draft Housing Revenue Accounts Subsidy and Item 8 determinations was received on 20th December 2013. The budget proposals below are based on the draft determinations where applicable. The final determinations are due at the end of January 2014 and it is proposed that the final budget will be adjusted to reflect any change to the final determinations received.

#### **3.02 Guideline Rent Increase**

As part of the 2013 spending review the UK Government announced that rents would rise by CPI + 1% each year for 10 years rather than RPI as a measure of rent inflation.

- 3.03 If rents in Wales continued to be uplifted on the basis of RPI, whereas UK benefits are linked to the CPI index and CPI remains below RPI, there is a risk that over time the rent levels in Wales would not be covered by benefits. As a consequence tenants would have to fund the shortfall from their own resources.

- 3.04 WG have therefore agreed that from April 2014 both RSL and Local Authority Sectors in Wales will move to using CPI as the basis of rent inflation.

- 3.05 WG have proposed to increase the all-Wales average weekly guideline rent by 4.2%.

- using the previous September CPI inflation figure of 2.7% and
- and apply a 1.5% real increase to the average local authority guideline rent for 2014-15.

The guideline rent increase is the amount by which WG considers each Authority should increase weekly rents in order to make progress towards achievement of the key WG objective of "benchmark" rents, where Local Authority and Registered Social Landlords (RSL) rents for similar properties in similar areas are broadly the same.

- 3.06 The proposed guideline weekly rent increase for Flintshire 2014/15 is £3.29 per week, (on a 52 week collection basis). This is a percentage increase of 4.6% to rents compared to the all Wales average of 4.2%. The difference mainly due to a factor that is applied to all councils for economic value of the stock, this is however a reduced increase compared to the 2013/14 budget which saw an increase in rents of 5.0%. Currently 9% of Flintshire social rents are at the benchmark level.
- 3.07 The current levels of benefit claimants amongst Flintshire housing tenants are illustrated in the table below :-

<b>Flintshire Tenants - Housing Benefit Claimants</b>		
<b>Benefit Status</b>	<b>Tenants</b>	
	<b>Number</b>	<b>%</b>
Full/Partial Benefit	4985	67.1%
Full Rent	2441	32.9%
Total	7426	100.0%

- 3.08 As illustrated above, approximately 67.1% of the Councils 7,426 tenants would face no additional hardship as a consequence of the proposed rent increase. This will be met by housing benefit subject to claimants personal circumstances remaining the same and their households being unaffected by Welfare Reform. Those tenants who are not currently in receipt of benefit will naturally have to meet the full increase in rent, unless they become eligible for housing benefit.
- 3.09 It is proposed to reduce the bad debt provision which will create savings of £0.208m. Welfare reform has not impacted on arrears as severely as anticipated in 2013/14 and this has been reflected in the 2014/15 budget proposals.
- 3.10 **Management and Maintenance allowance**  
The Management and Maintenance allowance element of Housing Revenue Account Subsidy is proposed to increase to £2,769 per dwelling for each local authority, reflecting an increase of £159 per dwelling (6.1%) on 2013/14.
- 3.11 **Rent Increase – Garages**  
The 2014/15 proposed rent level for all HRA garages is £5.75 per week, an increase of £0.25 per week (4.6%) compared to 2013/14 (and in line with rent increases for homes).

3.12 **General Income**

The HRA budget has been realigned for 2014 to follow the same format of the 30 year business plan which is submitted to WG. This includes showing all areas of income under one heading.

- 3.13 £0.734m general income has been included in the plan reflecting £0.531m for water bill collection and other smaller items of general income. It also includes increased income of £0.126m following a new charging policy for the tenants gardening service.

3.14 **HRA – Key areas of expenditure**

Appendix 1 sets out a summary of the proposed HRA budget for 2014/15 and compares it to the 2013/14 budget.

Appendix 2 shows the assumptions which have been made in calculating the figures.

Appendix 3 shows the detail of proposed savings and efficiencies, and investment for service improvements.

- 3.15 The approach to developing the draft budget has been to maximise the efficiencies which could be made and to invest in service improvements as set out in the Choices document. Overall the proposed budget provides £0.536m of additional investment in services and £0.789m of additional funding for the capital programme over the levels in 2013/14 and makes savings of £1.144m. The total savings figure equates to 6.9% of total operating costs.

3.16 **Estate Management**

Estate management has identified efficiencies of £0.021m against the 2013/14 budget following VFM and back to basic reviews.

The funding for 2 full year Anti Social Behaviour (ASB) posts is proposed as agreed in the Choices Document and also opening of the ASB out of hours service to direct referrals is proposed. This will be at a cost of £0.017m.

Service improvements totalling £0.038m are proposed to introduce a Handy Person Service in Flintshire which is designed to aid tenants with minor property repairs.

The funding for 2 posts to support tenants at risk of financial exclusion is proposed at a cost of £0.052m as agreed in the Choices Document.

3.17 **Landlord Services**

The Landlord service is reflecting an increased spend of £0.336m compared to 2013/14.

£0.324m is a realignment of the garden service including communal land which is now reflected under landlord services rather than Estate management. The gardening service has also created a saving of £0.125m on 2013/14 costs following a review of the contract.

WG expects landlords to introduce charging for services that are only available to specific tenants to maximise income through the HRA and enable improvements to stock. As agreed at Cabinet, on 17<sup>th</sup> December 2013, it is the intention to provide a chargeable service for grass and hedge cutting from 1<sup>st</sup> April 2014. The new contract costs of £0.126m will be recovered via a chargeable service to the tenant creating additional income in the HRA.

3.18 **Repairs and Maintenance**

The housing repairs service is continuing its drive to develop into a modern and efficient customer focused service. Repairs and Maintenance is the largest element of expenditure within the HRA at £8.467m. It is proposed to spend an additional £0.074m compared to 2013/14 a unit cost of £1,170 per property in 2014/15, compared to £1,138 in 2013/14.

Repairs and maintenance have created savings of £0.070m following value for money reviews on fleet and back to basics. The budget on subcontractors has also been reduced by £0.050m.

An increased cost of £0.300m has been anticipated on materials. This budget has been adjusted to reflect an increase of approximately 2,000 repairs per year and the requirement for subcontractors to utilise the stores to enable greater control over material costs charged via subcontractors.

3.19 **Capital Expenditure financed from Revenue Account**

Capital expenditure financed from the revenue account (CERA) enables additional investment in the HRA Capital Programme. The use of this additional source of financing for capital improvements helps to progress the work to achieve the requirements of the Welsh Housing Quality Standard (WHQS). An investment of £6,581m has been included in the 2014/15 budget which is an increase of £0.789m on the 2013/14 budget.

3.20 **Finance and Support Services**

Finance and Support have identified an efficiency of £0.102m against the 2013/14 budget. These savings have been identified through the reduction of support recharges, one year temporary staff efficiencies and a review of the admin service.

3.21 **Closing Balance**

A closing balance of 3.20% is recommended for 2014/15 as per 2013/14. This enables the Council to maximise investment in WHQS.

### **CAPITAL PROGRAMME 2014/15**

- 3.22 Executive approved a 6 year capital improvement programme commencing in 2012/13, on 19th July 2011.

At the end of the programme all council homes will have:-

- A WHQS standard kitchen
- A WHQS heating system
- Smoke detectors
- 1300 homes will have WHQS standard bathrooms

This is year 3 of the original 6 year programme and Appendix 4 sets out the proposed capital expenditure for 2014/15. The total proposed capital funding for 2014/15 is £12.381m which includes

- Major Repairs Allowance - £5.200m
- Proposed Revenue Contribution to Capital Expenditure (CERA) - £6.581m (An increase of £0.700m on 2013/14 provision).
- Potential HRA land receipts - £0.600m (These works will only commence when the funds are available).

A revised Asset Management strategy is under development and will be implemented from April 2015, subject to approval. This revised strategy will ensure that all stock achieves the WHQS by 2020, and will therefore involve the introduction of a number of new work streams to address all investment needs, both internal, external and estate based environmental improvements.

3.23 **Home Ownership**

Zero sales have been assumed for Right to Buy in 2014/15 for budget purposes.

### **30 YEAR BUSINESS PLAN**

- 3.24 It is a requirement of WG for all stock owning local authorities to produce a robust business plan showing how they will meet WHQS by the target of 2020.
- 3.25 Appendix 5 sets out the most up to date estimate of Flintshire's 30 year HRA business plan, based on the proposed 2014/15 revenue budget and capital programme as set out in this report. The plan shows a projected funding shortfall of £7.689m to meet WHQS by 2020 a reduction of £6.816m on the funding shortfall projected in the 2013/14 business plan submitted to WG. This latest estimate was submitted to WG on the 17<sup>th</sup> January 2014 (subject to cabinet approval) as a requirement to enable the Council to access the £5.2m MRA for 2014/15
- 3.26 The Council's preference in relation to achieving WHQS is to seek to avoid borrowing for this purpose, but the Council has indicated to WG that should this be necessary in order to achieve WHQS by 2020 then

it would do so. It can be seen that the gap has reduced significantly because of the efficiencies within the HRA and additional revenue income. The shortfall could potentially be met by prudential borrowing if the gap is not closed over the next three years from savings anticipated following rent reform and the exit from the subsidy system along with driving through ongoing efficiencies to create more resources for investment.

#### **4.00 RECOMMENDATIONS**

4.01 Members are asked to approve and recommend to Council :

- i. The proposed HRA budget for 2014/15 as set out in Appendix 1, incorporating the financial assumptions in Appendix 2 and the service Improvements and Efficiencies in Appendix 3.
- ii. The level of rent and service charges for 2014/15 as set out in paragraphs 3.01 to 3.07
- iii. The level of projected balances at 31<sup>st</sup> March 2015 at 3.20% of total expenditure.
- iv. The proposed HRA Capital Programme as set out in Appendix 4.

4.02 Members are asked to note the impact of the proposed revenue budget and capital programme on the 30 year Business Plan.

#### **5.00 FINANCIAL IMPLICATIONS**

5.01 The Council has a statutory duty to review the income and expenditure of the HRA, and to set a budget for the forthcoming financial year which avoids a deficit closing balance position. This report sets out how this can be achieved for the Council in 2014/15. The key financial assumptions on which this is proposed are set out in Appendix 2. The proposed budget estimates a closing balance of 3.20% to total expenditure.

#### **6.00 ANTI POVERTY IMPACT**

6.01 HRA activity helps alleviate poverty by providing safe and secure homes that are energy efficient and economical to run. The ongoing programme maintains the impetus to upgrade heating etc., to minimise fuel use and thereby boost disposable income.

#### **7.00 ENVIRONMENTAL IMPACT**

7.01 There are no direct environmental impacts arising from the HRA budget as outlined in the report.



## **8.00 EQUALITIES IMPACT**

8.01 There are no direct equalities impacts arising from this report.

## **9.00 PERSONNEL IMPLICATIONS**

9.01 There are no direct personnel implications arising from the report.

## **10.00 CONSULTATION REQUIRED**

10.01 Consultation with all tenants over any rent increase must take place and must be at least 28 days before any rent increase is due to come into effect. Consultation with tenants on the draft budget and proposed rent increase will be undertaken at the tenants' conference on 3<sup>rd</sup> February 2014.

10.02 The Housing Scrutiny committee will consider the budget proposals at their meeting on 21<sup>st</sup> January 2014.

## **11.00 CONSULTATION UNDERTAKEN**

## **12.00 APPENDICES**

Appendix 1 – HRA budget 2014/15 Summary

Appendix 2 – HRA financial assumptions

Appendix 3 – HRA budget pressures, savings & service improvements.

Appendix 4 – HRA capital budget 2014/15

Appendix 5 – HRA 30 year business plan summary

## **LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985 BACKGROUND DOCUMENTS**

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