

Council

22<sup>nd</sup> February 2012

## Housing Revenue Account Estimates for 2011/12 to 2015/16

**Report of the Borough Treasurer and the Executive Director, Economy, Place and Skills**

**Portfolio Holder: Joint Report of the Cabinet Member Finance and Human Resources, Councillor Abdul Jabbar and Cabinet Member Housing, Transport and Regeneration, Councillor David Hibbert**

22<sup>nd</sup> February 2012

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### **Purpose of Report**

The report sets out the latest Housing Revenue Account (HRA) outturn estimate for 2011/12 and the detailed budget for 2012/13, together with the arrangements for the move to a Self Financing HRA effective from 1<sup>st</sup> April 2012. In addition strategic estimates for 2013/14 to 2015/16 are provided. The report also sets out the dwelling, non dwelling rents and service charges increases to be applied from 4<sup>th</sup> April 2012.

### **Executive Summary**

The report sets out the HRA estimated outturn for 2011/12 and the proposed 2012/13 original budget; the first under the new self-financing regime it also provides detail of the arrangements for the transition to self financing. The opportunity is also taken to present the strategic budgets for 2012/13 to 2015/16.

### **Recommendations**

That Council:

1. Notes the forecast out-turn for 2011/12;
2. Notes the arrangements for the introduction of Self Financing;
3. Approves the proposed HRA budget for 2012/13;
4. Approves the proposed increases in dwelling rents, non-dwelling rents, service charges and leaseholder service charges

**1. Background**

- 1.1 The budget and policy framework, approved by the Cabinet in November 2002 (revised September 2011), sets out an annual timetable for the HRA budget process. Production of this report and the ability to scrutinise the budget, are key features of that framework, along with consultation with tenants. The report was scrutinised by the Overview and Scrutiny Performance and Value for Money Select Committee on 24<sup>th</sup> January 2012 and considered and approved at the Cabinet meeting of 6<sup>th</sup> February 2012.

**2. Current Position**

- 2.1 The HRA currently comprises 1,765 properties with all but 20 (Swift Court) now being managed and maintained within the two Private Finance Initiative (PFI) schemes.

**PFI 2**

- 2.2 PFI 2 was signed in 2006 to provide 1,429 sheltered accommodation dwellings in a mixture of bungalows and group schemes. Construction is almost finished, the final 3 group schemes are 6 months behind schedule and forecast to complete in April 2012. There have been a number of disputes during the construction period and the Authority has successfully levied significant deductions against the contractor. Regrettably, despite having been successful at a number of adjudication hearings, action is still ongoing and a number of compensation claims (most of which are considered to be without foundation) have been resubmitted and are being assessed. There is obviously a residual financial risk until all these issues are resolved.

**PFI 4 Gateways to Oldham**

- 2.3 The scheme reached financial close on 30<sup>th</sup> November 2011 and will see the refurbishment of 316 existing properties along with the creation of 317 new homes, with a total capital value of £77m. The Council has entered into a 25 year contract with Inspiral Oldham who will use private finance to fund the construction works and manage and maintain the properties for the duration of the contract through to October 2036. As previously reported to Council in July 2011, as one of a series of negotiated measures to establish value for money, the Authority sought Treasury approval to make a capital contribution of £12,000k to assist with overall programme affordability. The actual contribution is confirmed as a £11,916k payment, which will be phased in as dwellings are commissioned. This anticipated payment has been included in the Council's capital strategy and capital programme.

**The Self Financing Housing Revenue Account**

- 2.4 April 2012 will mark the most significant change in a generation to the way that council housing is financed; the Localism Act which received royal assent on 15<sup>th</sup> November 2011 will deliver a new local, devolved system which will replace

the current subsidy regime. In practical terms the HRA will be a self sufficient ring fenced account which will retain and use rental income, and in the case of Oldham, PFI credits to meet all its management, maintenance and repairs commitments, including the respective unitary charges. The aim of the reforms is to enable Councils to manage their housing stock for the benefit of local residents in a transparent, accountable and cost effective way.

- 2.5 On 21<sup>st</sup> November 2011 Communities and Local Government (CLG) published consultation documentation, that set out the framework for the new system and gave Councils their draft settlement figures. A period of consultation ran to 6<sup>th</sup> January 2012 and the final determination was issued on 1<sup>st</sup> February 2012, the settlement payment will be made by DCLG on 28<sup>th</sup> March 2012.
- 2.6 The key determinations are firstly the settlement payment which is the amount each Authority will either pay or receive from the Government, based on a national redistribution of existing housing debt and secondly the limit of indebtedness which is the maximum amount of housing debt that an Authority can hold in the future.
- 2.7 The draft determination for Oldham confirms a payment from Central Government to the authority of £20,227k.

### **Rent Restructuring**

- 2.8 Rent restructuring (convergence) was introduced in 2002/03. This set out a new methodology for the calculation of dwelling rents, attempting to equalise rent charges between local authorities and housing associations over ten years.
- 2.9 Oldham Council has complied with the restructuring guidance in each year since 2002/03, including those years when voluntary individual rent increase limits were requested.
- 2.10 Based on the estimated guideline rent increase it is estimated that the average rent increase on 4<sup>th</sup> April 2012 will be 7.40% (£4.69 [from £63.41 to £68.10], on a 48 week basis).
- 2.11 Under rent restructuring, the annual maximum rent increase is Retail Price Index (RPI) (5.6% as at September 2011) + 0.5% + £2.17 (48 week basis) until such time as the target rent for the property has been reached. Because of rent restrictions in the past, this maximum increase will apply to the majority of current tenants. Rent convergence is planned for 2015/16.
- 2.12 The table below summarises the estimated rent increases (on a 48 week basis):

Rent Increase	Dwelling Numbers	Average Increase
6.00 to 6.99%	295	£4.26
7.00 to 7.99%	1,290	£4.66
8.00 to 8.99%	168	£5.57
9.00 to 9.33%	12	£6.27
	<b>1,765</b>	<b>£4.69</b>

### The Revised HRA Budget 2011/12

2.13 The 2011/12 estimated outturn is attached at Appendix A showing an estimated year-end working balance of £12,916k in accordance with the Code of Practice on Local Authority Accounts in the United Kingdom (the Code) that requires PFI reserves to be shown as part of the HRA. There have been regular monitoring reports to Members and the PFI board throughout the year. The forecasts take into account the establishment of PFI4 which reached financial close on 30<sup>th</sup> November 2011. The composition of the balance is summarised below:

Analysis of HRA Balances	Original Budget £k	Latest Forecast £k	Variance to Budget £k
HRA Balances Brought Forward	(17,595)	(11,354)	6,241
<b>(Surplus) / Deficit for the year on HRA Services</b>	<b>(3,122)</b>	<b>(1,562)</b>	<b>1,560</b>
<b>HRA Balances carried forward</b>	<b>(20,717)</b>	<b>(12,916)</b>	<b>7,801</b>

### The HRA Budget 2012/13

2.14 The proposed HRA budget for 2012/13 is attached at Appendix B including all balances, income and expenditure met from the two PFI reserves. It is the first budget under the self financing regime and hence does not include a subsidy settlement.

2.15 PFI credits for the two schemes are paid on an annuity basis; that is, they remain constant throughout the life of the projects. In the early years of the schemes, these credits exceed the unitary charges and other costs payable. These early year surpluses, together with any interest earned, are retained to meet later year deficits as unitary charge payments are increased year on year by an inflationary factor. The majority of the HRA balances are specifically earmarked for these projects, as identified in Appendix B.

2.16 Other key assumptions made in determining the budget are that:

- (1) There will be a gain of 73 properties due to new build within the PFI schemes during 2012/13;

- (2) Void levels have been increased in 2012/13 to 6% and 10% respectively for PFIs 2 and 4, reducing to 2% and 5% in 2013/14 and then reverting to 2% per annum across both schemes thereafter;
  - (3) Average rents are 7.40% higher than for 2011/12;
  - (4) There are 48 rent weeks in 2012/13;
  - (5) An increase in the bad debt provision from 0.5% to 1.5% to compensate for changes to benefits system;
  - (6) The introduction of depreciation as an actual charge in the HRA Income and Expenditure account; and
  - (7) The payment of the first tranche of the PFI 4 capital contribution in the sum of £4,756k.
- 2.17 The estimated combined balance of £9,774k is felt sufficient to meet the future operational commitments and the potential financial pressures identified in the risk assessment, Appendix C.

### **Dwelling Rent, Non-Dwelling Rents and Services Charges Increases 2012/2013**

- 2.18 The HRA 2012/13 budget has been calculated taking into account an average rent increase of 7.40%, as outlined at paragraphs 2.8 to 2.12 above. It is therefore recommended for approval that the same percentage increase is applied to non-dwelling rents and services charges.
- 2.19 Central Heating charges remain for some of the PFI properties and it is proposed to continue recharging tenants on the basis of actual costs incurred.

### **Strategic HRA estimates 2013/14 to 2015/16**

- 2.20 The projected forecasts for 2013/14 to 2015/16 are attached at Appendix D.
- 2.21 As per 2.1 the HRA will include properties which are largely contained within the two PFI contracts, it is anticipated that it will remain stable on an annual basis. It should be noted that in both schemes a proportion of the unitary charge is indexed with reference to inflation (RPI). Furthermore the experience of PFI2 has shown that there will inevitably be an amount of uncertainty in relation to construction and the handover of units.

## **3 Options/Alternatives**

- 3.1 In order that the Council complies with legislative requirements, it must consider and approve a HRA budget for 2012/13.
- 3.2 The self financing debt settlement is calculated on the basis of 30 year business plan which uses the guideline rent calculation as the basis of the income stream, failure to adopt this methodology may seriously impact on the viability of the plan over the longer term. Two potential scenarios have been assessed by way of

example - the proposed rent increase of £4.69 per week is roughly halved to £2.35 or removed altogether. The loss to the HRA would be:

<b>Average increase in rent</b>	<b>£2.35 £'000s</b>	<b>£0.00 £'000s</b>
Impact in 2012/13	187	374
Impact over 30 years plan	11,176	22,304

#### **4 Preferred Options**

4.1 The preferred option is that the contents of the report are approved

#### **5 Consultation**

5.1 Consultation has taken place with Executive Members, service providers and tenants. The report was scrutinised by the Overview and Scrutiny Performance and Value for Money Select Committee on 24<sup>th</sup> January 2012 and considered and approved at Cabinet on 6<sup>th</sup> February 2012.

#### **6 Financial Implications**

6.1 Proposals set out in this report are based upon the joint best assessment of the likely financial position for 2012/13. Forecasting is again difficult given the short term uncertainty caused by the introduction of self financing and the potential for movement in stock numbers as construction commences on the newly established PFI scheme. Prudent assessments have been included within these estimates and the financial impact of any variances is identified in the Risk Assessments undertaken.

6.2 The general HRA and PFI HRA balances are sufficient to meet known obligations for the foreseeable future. (Andy Cooper).

#### **7. Legal Services' Comments**

7.1 It is statutory requirement that the Authority set a balanced HRA budget, having due regard to an appropriate level of working balances and giving due consideration to the risks involved. (Bill Balmer)

#### **8 Cooperative Agenda**

8.1 The HRA budget has been framed so that it reflects the Administrations cooperative agenda ensuring that as far as possible resources are directed to support the Councils aims, objectives and cooperative ethos.

## **9. Human Resources Comments**

9.1 None.

## **10 Risk Assessment**

10.1 The HRA budget set out in this report is based on the joint best assessment of the likely financial position of the HRA in 2011/12 and 2012/13. Attached at Appendix C is a risk register as at December 2011. Forecasting remains challenging and there are a number of key issues that, should they change, will affect the proposed budget. These are set out below:

- As stated in paragraph 2.16, above, the budget has been prepared on the basis that there is a further net increase in stock of 73 properties due to PFI4 new build, obviously there is potential that the programme may complete later than planned. Each additional delayed property would cost the HRA an estimated £1.44k in a full year, so if say 10 were delayed during the year the annual loss would be in the region of £14.4k, which would need to be accommodated within the total HRA budget.
- There would be a risk to income if the void level was higher than the 2012/13 budgeted levels. The impact upon income is that a 1% increase in voids costs approximately £58k in a full year.
- In relation to PFI2 a number of compensation claims have been submitted.

## **11 IT Implications**

11.1 None.

## **12 Property Implications**

12.1 None.

## **13 Procurement Implications**

13.1 None

## **14 Environmental and Health & Safety Implications**

14.1 There are none specific at this stage.

## **15 Equality, community cohesion and crime implications**

15.1 Continuation of a robust consultation process open to all tenants and tenants representatives will ensure maximum engagement and provide the opportunity for the views of all groups to be considered in setting the HRA budget and the provision of services to tenants.

15.2 The funding the HRA receives from the Subsidy Determination supports the Council in achieving the aims set out in its Housing Strategy.

**16 Equality Impact Assessment Completed?**

16.1 Not applicable

**17 Key Decision**

16.1 Yes

**18 Forward Plan Reference**

18.1 PCAPS-37-11

**19 Background Papers**

19.1 The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100D (1) of the Local Government Act 1972. It does not include documents, which would disclose exempt or confidential information as defined by that Act.

File Ref: HRA 2012/13  
Name of File: HRA 2012/13 AC  
Record Held in: Finance Service Offices.  
Room 704,  
Civic Centre,  
Oldham  
Officer Name: A Cooper  
Contact Number: 0161 770 4717

**20 Appendices**

Appendix A Revised HRA Income & Expenditure Account 2011/12  
Appendix B Original HRA Income & Expenditure Account 2012/13  
Appendix C 2012/13 – 2015/16 Risk Assessment as at December 2011  
Appendix D HRA Income & Expenditure Account 2013/14 to 2015/16  
Strategic Forecasts

<b><u>HRA Income &amp; Expenditure Forecast Outturn 2011/12</u></b>	<b>Original Budget £k</b>	<b>Latest Forecast £k</b>	<b>Variance to Budget £k</b>
	£	£	£
<b>Income</b>			
Dwellings rents (gross)	(5,323)	(4,914)	409
Non Dwelling Rents	(23)	(26)	(4)
Charges for services and facilities	(855)	(644)	211
Contributions towards Expenditure	(514)	(561)	(47)
Housing Revenue Account Subsidy	0	0	
Major Repairs Allowance	0	(139)	(139)
HRA Subsidy ~ PFI Credits	(19,873)	(13,602)	6,271
<b>Total Income</b>	<b>(26,589)</b>	<b>(19,886)</b>	<b>6,703</b>
<b>Expenditure</b>			
Unitary Charge Payments (PFI2 and PFI4)	19,838	12,357	(7,480)
Supervision & Management	269	293	24
HRA Subsidy ~ Housing Element	548	1,031	484
Rent, rates and other charges	1,494	3,942	2,447
Depreciation and Impairment of Fixed Assets	2,019	2,019	0
Debt management costs	20	25	5
Increased provision for bad or doubtful debts	26	24	(2)
<b>Total Expenditure</b>	<b>24,213</b>	<b>19,691</b>	<b>(4,522)</b>
<b>Net Cost of HRA Services per I &amp; E Account</b>	<b>(2,375)</b>	<b>(195)</b>	<b>2,181</b>
HRA share of Corporate and Democratic Core	83	83	0
<b>Net Cost of HRA Services</b>	<b>(2,293)</b>	<b>(112)</b>	<b>2,181</b>
Interest payable and other similar charges	1,381	611	(770)
Interest and Investment Income	(192)	(181)	11
<b>(Surplus)/Deficit for the year on HRA Services</b>	<b>(1,103)</b>	<b>318</b>	<b>1,421</b>

<b>Statement of Movement on HRA Balances</b>	<b>Original Budget</b>	<b>Latest Forecast</b>	<b>Variance to Budget</b>
<b>(Surplus)/Deficit for the year on HRA Services</b>	(1,103)	318	1,421
<b>Net Additional amount required by Statute</b>	(2,019)	(1,880)	139
<b>Increase/ decrease in the HRA Balance</b>	<b>(3,122)</b>	<b>(1,562)</b>	<b>1,560</b>
HRA Balances brought forward	(17,595)	(11,354)	6,241
<b>HRA Balances carried forward</b>	<b>(20,717)</b>	<b>(12,916)</b>	<b>7,801</b>

<b>Note to Statement of Movement on HRA Balance</b>	<b>Original Budget</b>	<b>Latest Forecast</b>	<b>Variance to Budget</b>
<b>Items included in HRA I &amp; E account but excluded from the movement on HRA balance for the year</b>			
Difference in accordance with the Code	(2,019)	(1,880)	139
Government Grants Deferred	0	0	0
	<b>(2,019)</b>	<b>(1,880)</b>	<b>139</b>
<b>Items not included in HRA I &amp; E Account but excluded from the movement on HRA balance for the year</b>			
Transfer to/ from (-) Major Repairs Reserve	0	0	0
HRA Contributions to Minimum Revenue Provision	0	0	0
Revenue Contribution to Capital expenditure	0	0	0
	0	0	0
<b>Net Additional Amount Required By Statute</b>	<b>(2,019)</b>	<b>(1,880)</b>	<b>139</b>

<b>Analysis of HRA Balances carried forward</b>	<b>Original Budget £</b>	<b>Latest Forecast £</b>	<b>Variance to Budget £</b>
General HRA balances	(1,214)	(489)	725
Balances specifically earmarked for PFI 2 scheme	(15,934)	(13,296)	2,637
Balances specifically earmarked for PFI 4 scheme	(3,569)	870	4,439
<b>HRA Balances carried forward</b>	<b>(20,717)</b>	<b>(12,916)</b>	<b>7,801</b>

## Appendix B

<b><u>HRA Income &amp; Expenditure Account 2012/13</u></b>	<b>Original Budget £</b>
<b>Income</b>	
Dwellings rents (gross)	(5,425 )
Non Dwelling Rents	(23 )
Charges for services and facilities	(665 )
Contributions towards Expenditure	(2,732 )
PFI Grant	(18,786 )
<b>Total Income</b>	<b>(27,631 )</b>
<b>Expenditure</b>	
Unitary Charge Payments (PFI2 and PFI4)	17,943
Supervision & Management	391
HRA Subsidy ~ Housing Element	0
Depreciation and impairment of Fixed Assets	2,061
Rent, rates and other charges	10,304
Debt management costs	145
Increased provision for bad or doubtful debts	81
<b>Total Expenditure</b>	<b>30,925</b>
<b>Net Cost of HRA Services per I &amp; E Account</b>	<b>3,293</b>
HRA share of Corporate and Democratic Core	85
<b>Net Cost of HRA Services</b>	<b>3,378</b>
Interest payable and other similar charges	0
Interest and Investment Income	(236 )
<b>-Surplus/Deficit for the year on HRA Services</b>	<b>3,142</b>
HRA Balances brought forward	(12,916 )
<b>HRA Balances carried forward</b>	<b>(9,774 )</b>
<b>Analysis of HRA Balances carried forward</b>	<b>£</b>
General HRA balances	1,654
Balances specifically earmarked for PFI 2 scheme	(13,483 )
Balances specifically earmarked for PFI 4 scheme	2,056
<b>HRA Balances carried forward</b>	<b>(9,774 )</b>

## HOUSING REVENUE ACCOUNT

2012/13 – 2015/16 RISK ASSESSMENT AS AT DECEMBER 2011

<u>RISK EVENT/ DESCRIPTION</u>	<u>LIKELIHOOD</u>	<u>IMPACT</u>	<u>RESERVE POSITION</u>
1. The level of stock is lower than the assumption made in the estimates.	The budget for 2012/13 has included a provision for a net increase of 73 properties. The likelihood of the final figure being different from this is medium to high given slippage on new build properties within the PFI schemes in the past.	The loss of a property costs the HRA about £1.44k in a full year. Therefore the loss of a further 10 properties in the year, assuming a spread of loss throughout the year, would cost the HRA about £14.4k	This would need to be found in year from within the HRA.
2. The void level assumed on dwelling properties increases.	The budget has been set assuming a 2012/ 13 void rate of 6% and 10% on PFI's 2 and 4 respectively, reducing to 2% and 5% in 2013/14, and 2% across both schemes thereafter, these are believed to be realistic estimates.	A change in the void percentage of 1% (18 properties) has the impact, in a full year, of £58k.	The loss of income arising from movement in void levels would need to be met from reserves. The HRA has sufficient balances to absorb the movement on voids
3. Impact of changes in rental income collection rates.	The collection of rental income is a key performance indicator and one in which the PFI providers have performed at the highest level. Historically It has been considered a low risk that this collection rate will deteriorate to a level to the point where it has a significant impact on the revenue budget. Impending changes in the benefits system do though have potential to impact on the collection on rent.	Rental income is accounted for in the HRA on a rents receivable not received basis, however, for the reasons previously stated the impact is now considered high, as result there has been an increase from 0.5% to 1.5% in the percentage revenue provision required for bad and doubtful debts	A specific bad debts provision of £81.4k is contained within the HRA budget for 2012/13, this is considered sufficient to deal with any impending changes in the benefits system

<b><u>RISK EVENT/ DESCRIPTION</u></b>	<b><u>LIKELIHOOD</u></b>	<b><u>IMPACT</u></b>	<b><u>RESERVE POSITION</u></b>
4. PFI 2- disputes and compensation claims	A number of compensation claims have been submitted by the contractor. The Authority is currently assessing the claims and believes the majority are without substance, there will inevitably be some of the claims which are valid and which will require settlement	The value of the claims submitted is £5.7m, the Authority's estimated of valid claims is approximately £0.5m	A provision of £1.5m has been made within the reserve to settle all outstanding claims.

<b><u>HRA Income &amp; Expenditure Account 2013/14 to 2015/16 Strategic Forecasts</u></b>	<b>Original 2013/2014</b>	<b>Original 2014/2015</b>	<b>Original 2015/2016</b>
	£	£	£
<b>Income</b>			
Dwellings rents (gross)	(6,313)	(6,870)	(7,327)
Non Dwelling Rents	(23)	(23)	(23)
Charges for services and facilities	(707)	(771)	(816)
Contributions towards Expenditure	(1,528)	(731)	(643)
HRA Subsidy ~ PFI Credits	(18,786)	(18,786)	(18,786)
<b>Total Income</b>	<b>(27,356)</b>	<b>(27,180)</b>	<b>(27,595)</b>
<b>Expenditure</b>			
Unitary Charge Payments (PFI2 and PFI4)	20,612	22,097	22,931
Supervision & Management	400	410	410
Depreciation and Impairment of Fixed Assets	2,167	2,306	2,381
Rent, rates and other charges	4,473	5,282	1,253
Debt management costs	145	145	145
Increased provision for bad or doubtful debts	95	103	110
<b>Total Expenditure</b>	<b>27,892</b>	<b>30,343</b>	<b>27,230</b>
<b>Net Cost of HRA Services per I &amp; E Account</b>	<b>536</b>	<b>3,163</b>	<b>(365)</b>
HRA share of Corporate and Democratic Core	87	90	92
<b>Net Cost of HRA Services</b>	<b>623</b>	<b>3,253</b>	<b>(273)</b>
Interest and Investment Income	(305)	(445)	(482)
<b>-Surplus/Deficit for the year on HRA Services</b>	<b>318</b>	<b>2,807</b>	<b>(756)</b>
HRA Balances brought forward	(9,774)	(9,456)	(6,648)
<b>HRA Balances carried forward</b>	<b>(9,456)</b>	<b>(6,648)</b>	<b>(7,404)</b>

<b>Analysis of HRA Balances carried forward</b>	£	£	£
General HRA balances	3,860	5,922	8,076
Balances specifically earmarked for PFI 2 scheme	(14,107)	(14,550)	(15,089)
Balances specifically earmarked for PFI 4 scheme	791	1,980	(391)
<b>HRA Balances carried forward</b>	<b>(9,456)</b>	<b>(6,648)</b>	<b>(7,404)</b>