

Council

27<sup>th</sup> February 2013

## Housing Revenue Account Estimates for 2012/13 to 2016/17

**Report of the Borough Treasurer and the Executive Director, Neighbourhoods**

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

Officer Contact: Steven Mair, Borough Treasurer

Ext. 4900

### **Purpose of Report**

The report sets out the latest Housing Revenue Account (HRA) outturn estimate for 2012/13 the detailed budget for 2013/14 and strategic estimates for the three years 2014/15 through to 2016/17. The report also sets out the dwelling, non dwelling rent and service charge increases to be applied from 1st April 2013.

### **Executive Summary**

The report sets out the HRA estimated outturn for 2012/13 and the proposed 2013/14 original budget. The opportunity is also taken to present the provisional strategic budgets for 2014/15 to 2016/17.

The report was presented for scrutiny at the Performance and Value Money for Overview and Scrutiny Select Committee on 28<sup>th</sup> January 2013 and although there was some questioning, the Committee did not request any amendments to the report. The report was also presented for approval at the Cabinet meeting of 18<sup>th</sup> February 2013.

### **Recommendations**

That Council:

1. Notes the forecast out-turn for 2012/13;
2. Approves the proposed HRA budget for 2013/14;
3. Approves the proposed increases in dwelling rents, non-dwelling rents, service charges and leaseholder service charges

**Council  
2012**

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## **Housing Revenue Account Estimates for 2012/13 to 2016/2017**

Joint Report of the Cabinet Member Finance, Human Resources and Strategic Partnerships, Councillor Abdul Jabbar and Cabinet Member Housing, Transport and Planning, Councillor David Hibbert.

### **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 therefore scrutinised by the Performance and Value for Money Overview and Scrutiny Committee on 28th January 2013.

### **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 PFI schemes, it is however estimated that this will have increased to 1,815 by 31<sup>st</sup> March 2013 as new build dwellings (PFI 4) are completed.

#### **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 with construction finishing behind schedule in May 2012. The project has a lengthy dispute profile. On three occasions the Authority's right to levy deductions has been referred to Adjudication, the last of which was in May 2012, and in all cases the Authority has been successful in defending its rights. Discussions are ongoing with Housing 21 (H21) to establish what remaining rectification works are required and then to establish a credible programme of works to be undertaken (by H21) that does not compromise tenant welfare. In addition a number of compensation claims (most of which are considered to be without foundation) have been resubmitted by Housing 21. There is obviously a residual financial and operational risk until all these issues are resolved, the budget has been prepared on the assumption that on-going payments to Housing 21 will remain as currently contracted.

## **PFI 4 Gateways to Oldham**

2.3 The PFI 4 scheme reached financial close on 30th November 2011 and will see the refurbishment of 316 existing properties and 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. Construction is currently behind programme but the Contractor expects to catch up by the end of the financial year, at which point it is estimated that approximately 200 refurbishments and 50 new properties will have been completed. To assist with overall programme affordability the Authority is making a total capital contribution of £12,026k, payment will be phased as dwellings are commissioned, a second tranche of £4,917k is due in 2013/14.

## **The Self Financing Housing Revenue Account**

2.4 1st April 2012 saw the introduction of the Self Financing Housing Revenue Account, replacing the old subsidy regime. In practical terms the HRA is now 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 28<sup>th</sup> March 2012 the Department for Communities and Local Government (DCLG) made a settlement payment to Oldham in relation to self financing thereby fully repaying the debt allocated to the HRA. In addition the Authority has been notified that it has 'a limit of indebtedness' of -£481k, essentially a negative borrowing cap which in practical terms prevents the HRA from taking on any new borrowing.

## **Rent Restructuring**

2.6 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.

2.7 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.

2.8 The annual maximum rent increase is RPI (2.6% as at September 2012) + 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 still planned for 2015/16.

2.9 Based on the estimated guideline rent increase it is estimated that the average rent increase on 1st April 2013 will be 4.35% (£2.96 [from £68.10 to £71.06], on a 48 week basis). There will actually be 49 rent weeks in 2013/14, the annual rent is calculated on a 52 week basis and apportioned to take account of the extra week, the average rent on a 49 week basis is £69.61.

2.10 The table below summarises the estimated rent increases (on a 48 week basis) to align with the guideline rent increases and in accordance with the differing types of housing available:

Rent Increase	Dwelling Numbers	Average Increase
3.00 to 3.99%	295	£2.42
4.00 to 4.99%	1308	£2.97
5.00 to 6.33%	162	£3.87

### The Revised HRA Budget 2012/13

2.11 The 2012/13 estimated outturn is attached at Appendix A showing an estimated year-end working balance of £6,175k, £3,599k worse than predicted in the original 2012/13 budget, the negative variance is due to a retained provision for disputed PFI unitary charge payments. There have been regular monitoring reports to the Assistant Executive Director Housing and Public Protection, Members and the PFI board throughout the year, the composition of the balance is summarised below;

Analysis of HRA Balances 2012-13	Original Budget £k	Latest Forecast £k	Variance to Budget £k
HRA Balances Brought Forward	-12,916	-10,425	2,491
(Surplus)/Deficit for the year on HRA Services	3,142	4,250	1,108
<b>HRA Balances carried forward</b>	<b>-9,774</b>	<b>-6,175</b>	<b>3,599</b>

### The HRA Budget 2013/14

2.12 The proposed HRA budget for 2013/14 is attached at Appendix B including all balances, income and expenditure met from the two PFI reserves. It is the second budget under the self-financing regime and hence no longer

includes the subsidy.

2.13 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.

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

- (1) There will be an estimated 136 new build properties introduced into the HRA through the Gateways to Oldham PFI schemes during 2013/14;
- (2) Void levels have been assumed at 2% and 10% respectively for PFI's 2 and 4 respectively in 2013/14, 2% and 5% in 2014/15 and then reverting to 2% per annum across both schemes thereafter;
- (3) Average rents are 4.35% higher than for 2012/13;
- (4) There are 49 chargeable rent weeks in 2013/14;
- (5) The bad debt provision is retained at 1.5% to accommodate the expected impact of changes to the benefits system;
- (6) The payment of the second tranche of the PFI 4 capital contribution in the sum of £4,917k.

2.15 The estimated closing account balance of £2,881k 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 2013/14**

2.16 The HRA 2013/14 budget has been calculated taking into account an average rent increase of 4.35%, as outlined at paragraphs 2.6 to 2.10 above. It is therefore recommended for approval that the same percentage increase is applied to non-dwelling rents and services charges.

2.17 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 2014/15 to 2016/17**

2.18 The projected forecasts for 2014/15 to 2016/17 are attached at Appendix D.

2.19 As per 2.1 the HRA will include properties which are largely contained

within the two PFI contracts and 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 2013/14

3.2 The Self Financing Housing Revenue is underpinned by a business plan that runs to the end of the PFI concessions 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 £2.96 per week is roughly halved to £1.50 or removed altogether. The loss to the HRA would be:

Average increase in rent	£1.50 £'000s	£0.00 £'000s
Impact in 2013/14	125	255
Impact over life of Business Plan	5,578	11,282

### 4 Preferred Options

4.1 The preferred option is that the recommendations of the report are approved by Council.

### 5 Consultation

5.1 Consultation has taken place with Executive Members, service providers and tenants. The report was scrutinised by the Performance and Value for Money Overview and Scrutiny Committee on 28th January 2013. The report was presented for approval at the Cabinet meeting of 18<sup>th</sup> February 2013.

### 6 Financial Implications

6.1 Proposals set out in this report are based upon our joint best assessment of the likely financial position for 2013/14. Forecasting is again difficult given on-going PFI 2 contractual disputes, the short term uncertainty caused by the introduction of self-financing and the potential for movement in stock numbers as construction continues 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. Human Resources Comments**

8.1 None.

## **9 Risk Assessment**

9.1 The HRA budget set out in this report is based on our joint best assessment of the likely financial position of the HRA in 2012/13 and 2013/14. Attached at Appendix C is a risk register as at January 2013. 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 2.14, above, the budget has been prepared on the basis that there is a further net increase in stock of 136 properties due to PFI4 new build. This includes units that have slipped from 2012/13, there is potential that the programme may complete later than planned. Any slippage in rental income is likely to be more than offset by a reduction in the unitary charge.
- There would be a risk to income if the void level was higher than the 2013/14 budgeted levels. The impact upon income is that a 1% increase in voids costs approximately £64k in a full year.
- In relation to PFI2 a number of compensation claims remain unresolved and the Authority is in the process of agreeing a programme of rectification works to reinstate properties to the agreed contractual standards

## **10 IT Implications**

10.1 None.

## **11 Property Implications**

11.1 None.

## **12 Procurement Implications**

12.1 None

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

13.1 There are none specific at this stage.

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

14.1 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 Equality Impact Assessment Completed**

15.1 Not applicable

#### **16 Key Decision**

16.1 Yes

#### **17 Forward Plan Reference**

17.1 CMCL-52-12

#### **18 Background Papers**

18.1 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 2013/14

Name of File: HRA 2013/14 AC

Record Held in: Finance Service Offices,  
Level 14,  
Civic Centre,  
Oldham

Officer Name: A Cooper

Contact Number: 0161 770 4717

#### **19 Appendices**

Appendix A HRA Income & Expenditure Account 2012/13 Forecast Outturn

Appendix B HRA Income & Expenditure Account 2013/14

Appendix C 2013/14 – 2016/17 Risk Assessment as at January 2013

Appendix D HRA Income & Expenditure Account 2014/15 to 2016/17  
Strategic Forecasts

			Appendix A
<b><u>HRA Income &amp; Expenditure Account 2012/13 Forecast Outturn</u></b>	<b>Original Budget</b>	<b>Latest Forecast</b>	<b>Variance to Budget</b>
	<b>£k</b>	<b>£k</b>	<b>£k</b>
<b>Income</b>			
Dwellings rents (gross)	(5,425)	(5,353)	72
Non Dwelling Rents	(23)	(20)	3
Charges for services and facilities	(665)	(326)	339
Contributions towards Expenditure	(2,732)	(1,036)	1,696
HRA Subsidy ~ PFI Credits	(18,786)	(18,786)	0
<b>Total Income</b>	<b>(27,631)</b>	<b>(25,521)</b>	<b>2,110</b>
<b>Expenditure</b>			
Unitary Charge Payments (PFI2 and PFI4)	17,943	17,576	(367)
Supervision & Management	391	395	4
Rent, rates and other charges	10,304	9,870	(434)
Depreciation and Impairment of Fixed Assets	2,061	1,870	(190)
Debt management costs	145	145	0
Increased provision for bad or doubtful debts	81	80	(1)
<b>Total Expenditure</b>	<b>30,925</b>	<b>29,937</b>	<b>(987)</b>
<b>Net Cost of HRA Services per I &amp; E Account</b>	<b>3,293</b>	<b>4,416</b>	<b>1,123</b>
HRA share of Corporate and Democratic Core	85	85	0
<b>Net Cost of HRA Services</b>	<b>3,378</b>	<b>4,501</b>	<b>1,123</b>
Interest and Investment Income	(236)	(252)	(15)

<b>(Surplus)/Deficit for the year on HRA Services</b>	<b>3,142</b>	<b>4,250</b>	<b>1,108</b>
HRA Balances brought forward	(12,916)	(10,425)	2,491
<b>HRA Balances carried forward</b>	<b>(9,774)</b>	<b>(6,175)</b>	<b>3,599</b>
<b>Analysis of HRA Balances carried forward</b>			
	<b>£</b>	<b>£</b>	<b>£</b>
General HRA balances	1,654	2,939	1,285
Balances specifically earmarked for PFI 2 scheme	(13,483)	(10,444)	3,039
Balances specifically earmarked for PFI 4 scheme	2,056	1,330	(726)
<b>HRA Balances carried forward</b>	<b>(9,774)</b>	<b>(6,175)</b>	<b>3,599</b>

	<b>Appendix B</b>
<b><u>HRA Income &amp; Expenditure Account 2013/14</u></b>	<b>Original Budget</b>
	<b>£k</b>
<b>Income</b>	
Dwellings rents (gross)	(6,178 )
Non Dwelling Rents	(20 )
Charges for services and facilities	(746 )
Contributions towards Expenditure	(1,641 )
PFI Grant	(18,786 )
<b>Total Income</b>	<b>(27,371 )</b>
<b>Expenditure</b>	
Unitary Charge Payments (PFI2 and PFI4)	19,945
Supervision & Management	404
HRA Subsidy ~ Housing Element	0
Depreciation and impairment of Fixed Assets	2,180
Rent, rates and other charges	7,883
Debt management costs	145
Increased provision for bad or doubtful debts	93
<b>Total Expenditure</b>	<b>30,650</b>
<b>Net Cost of HRA Services per I &amp; E Account</b>	<b>3,280</b>
HRA share of Corporate and Democratic Core	101
<b>Net Cost of HRA Services</b>	<b>3,380</b>
Interest payable and other similar charges	0
Interest and Investment Income	(86 )
<b>-Surplus/Deficit for the year on HRA Services</b>	<b>3,294</b>
HRA Balances brought forward	(6,175 )
<b>HRA Balances carried forward</b>	<b>(2,881 )</b>

<b>Analysis of HRA Balances carried forward</b>	<b>£</b>
General HRA balances	5,270
Balances specifically earmarked for PFI 2 scheme	(10,516 )
Balances specifically earmarked for PFI 4 scheme	2,365
<b>HRA Balances carried forward</b>	<b>(2,881 )</b>

Appendix C

## HOUSING REVENUE ACCOUNT

### 2013/14 – 2016/17 RISK ASSESSMENT AS AT JANUARY 2013

<u>RISK EVENT/ DESCRIPTI ON</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 2013/14 has included a provision for a net increase of 136 properties, this includes slippage of 23 units from the previous year. 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 £3.4k in lost income for a full year.	This would need to be found in year from within the HRA. As the void percentage is closely correlated with programme slippage, any reduction in rental income is likely to be more than offset by a reduction in unitary Charge Payments.

<p>2. The void level assumed on dwelling properties increases.</p>	<p>The budget has been set assuming a 2012/13 void rate of 2% and 10% on PFI's 2 and 4 respectively, reducing to 5% in 2014/15 for PFI 4, and 2% across both schemes thereafter, these are believed to be realistic estimates.</p>	<p>A change in the void percentage of 1% (18 properties) has the impact, in a full year, of £63k.</p>	<p>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, again it should be noted that the lost income is likely to be offset by reduced Unitary Charge payments as identified above.</p>
<p>3. Impact of changes in rental income collection rates.</p>	<p>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.</p>	<p>Rental income is accounted for in the HRA on a rents receivable not received basis, however,</p>	<p>A specific bad debts provision of £91.4k is contained within the HRA budget for 2013/14, this</p>
		<p>for the reasons previously stated the impact is now considered high, as result there was an increase in 12/13 from 0.5% to 1.5% in the percentage revenue provision required for bad and doubtful debts, this has been retained in 13/14</p>	<p>is considered sufficient to deal with any impending changes in the benefits system</p>

4.	PFI 2- Compe nsation claims	A number of compensation claims have been submitted by the contractor. The Authority is currently assessing the claims and has disputed the claims on the basis that they have not been properly substantiated.	The number and total value of the claims submitted exceeds the Authority's realistic estimation of valid claims.	A prudent provision has been made within the reserve to cover the Authority's reasonable expectation of valid outstanding claims .
5.	PFI 2- Contra ct Dispute s	Discussions are on-going with Housing H21 to establish the extent and value of the rectification works that are required and then to establish a credible programme of works to be undertaken (by H21) that does not compromise tenant welfare	Part of the agreement will be a Deed of Variation to the PFI contract, the detail of which are currently be negotiated	It is not envisaged that the agreed outcome will leave the Authority in any worse a financial position and the forecast is based on the assumption that payments to Housing 21 will remain as currently contracted.

			<b>Appendix D</b>
<b><u>HRA Income &amp; Expenditure Account 2014/15 to 2016/17 Strategic Forecasts</u></b>	<b>Original 2014/2015</b>	<b>Original 2015/2016</b>	<b>Original 2016/2017</b>
	<b>£k</b>	<b>£k</b>	<b>£k</b>
<b>Income</b>			
Dwellings rents (gross)	(6,888)	(7,388)	(7,646)
Non Dwelling Rents	(20)	(20)	(20)
Charges for services and facilities	(813)	(848)	(864)
Contributions towards Expenditure	(727)	(643)	(660)
HRA Subsidy ~ PFI Credits	(18,786)	(18,786)	(18,786)
<b>Total Income</b>	<b>(27,234)</b>	<b>(27,685)</b>	<b>(27,975)</b>
<b>Expenditure</b>			
Unitary Charge Payments (PFI2 and PFI4)	21,581	22,744	23,002
Supervision & Management	414	414	424
Depreciation and Impairment of Fixed Assets	2,320	2,381	2,381
Rent, rates and other charges	5,483	1,429	1,419
Debt management costs	145	145	145
Increased provision for bad or doubtful debts	133	145	150

<b>Total Expenditure</b>	<b>30,075</b>	<b>27,259</b>	<b>27,523</b>
<b>Net Cost of HRA Services per I &amp; E Account</b>	<b>2,840</b>	<b>(426)</b>	<b>(453)</b>
HRA share of Corporate and Democratic Core	103	106	108
<b>Net Cost of HRA Services</b>	<b>2,943</b>	<b>(320)</b>	<b>(344)</b>
Interest and Investment Income	(78)	(90)	(118)
<b>-Surplus/Deficit for the year on HRA Services</b>	<b>2,865</b>	<b>(410)</b>	<b>(463)</b>
HRA Balances brought forward	(2,881)	(16)	(426)
<b>HRA Balances carried forward</b>	<b>(16)</b>	<b>(426)</b>	<b>(889)</b>
<b>Analysis of HRA Balances carried forward</b>	<b>£</b>	<b>£</b>	<b>£</b>
General HRA balances	7,611	10,037	12,462
Balances specifically earmarked for PFI 2 scheme	(11,114)	(11,430)	(11,776)
Balances specifically earmarked for PFI 4 scheme	3,487	966	(1,575)
<b>HRA Balances carried forward</b>	<b>(16)</b>	<b>(426)</b>	<b>(889)</b>