

**Housing Revenue Account
Capital Plan and Revenue Budget 2014/15 – 2017/18**

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of this report is to provide Council with:-

- An update on the Housing Revenue Account (HRA) Capital Plan and Revenue Budget for 2014/15 – 2017/18;
- An update on the Projected Outturn against the revised budget for 2014/15.

2 Background

2.1 Capital Investment – New Social Housing Phase 2

The HRA Capital plan allowed for investment of £59.898 million for Phase 2 of the New Social Housing Programme. Two sites have since been completed with a further seven sites approved which includes £2.964 million for the Complex Care Development in Penicuik. This brings the total allocated budget to £30.234 million for Phase 2, leaving £29.574 million still to be allocated to Sites.

As reported to Council 17th June 2014 the site at Newbyres Crescent would require up to £10.000 million to demolish and rebuild. This would require to be funded from Phase 2 and as a consequence the unallocated Phase 2 budget would reduce to £19.574 million.

2.2 Capital Investment - Other

The remaining elements of the HRA Capital Plan as detailed in appendix 1 have been amended to represent the latest estimated costs of ongoing and planned projects.

2.3 Updated Capital Plan

The changes described above are reflected in the Capital Plan for 2014/15 to 2017/18 and are detailed in appendix 1 which shows total investment of £80.745 million with a net borrowing required over the period of £70.011 million.

2.4 Revenue Expenditure

The HRA revenue budget has been projected forward to 2028/29 and reflects the revised Capital plan as well as the following key assumptions:

- The borrowing cost of the capital investment detailed in appendix 1 together with estimated investment in existing properties over the remaining years of the projection;
- The provision in voids and irrecoverables is updated to reflect Discretionary Housing Payments which now being able to fully cover the under-occupancy charge and the delays in implementing Universal Credit;
- Investment in existing stock has reduced the need for reactive repairs;
- The revenue costs associated with Newbyres Crescent as reported to Council 17th June 2014;
- The longer-term requirement that the rents for new build properties will converge with that of the existing stock.

These together with a number of other minor adjustments to the previous financial projections confirm that the HRA can support the existing investment plans. To put affordability into context, over the period 2014/15 to 2028/29 HRA Revenue expenditure is expected to total £494 million with a projected working balance of approximately £8.039 million at 31st March 2029. This equates to 1.63% of this total expenditure. However this is dependent on the future year's rents strategy. Council on 22nd February 2011 agreed a rent increase of 6% from 2011/12 to 2015/16. The longer term projections provide for rent increases in future years of 4%.

Council house rents in Midlothian are ranked third lowest across Scotland at present and after the planned expenditure and investment detailed in this report are expected to remain in the lower quartile.

The revised revenue budget for 2014/15 and proposed revenue budget for 2015/16 – 2017/18 are detailed in appendix 2.

2.5 Capital Plan and Revenue Account Projected Outturn 2014/15

Taking into account the above revisions there are no material variances to be reported for 2014/15 for Capital and Revenue at this stage. A further update will be provided to Council in December.

3 Report Implications

3.1 Resource

The projected cost for Phase 2 of the New Social Housing Programme for 2014/15 to 2017/18 is £49.840 million. Investment for other Capital Investment projects is expected to be £30.905 over this period with a net borrowing requirement of £70.011 million.

3.2 Risk

The principal risks are around the issue of affordability, ensuring that the investment in new build and the existing stock can be made without having to impose unacceptable increases on weekly rents. Development of the Phase 2 Strategy has required a rent increase of 6% for 2013/14 to 2015/16. The longer term financial modelling undertaken demonstrates that the current capital plan is affordable but sensitive to movement in the following variables:-

- Future years rent strategy will affect the affordability of the Capital Plan;
- Inflation and interest rates.

Regular monitoring is in place to manage the financial and project risks. This ensures that any cost changes are identified and the implications assessed and reported promptly.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☒ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☐ Business transformation and Best Value
- ☐ None of the above

3.4 Impact on Performance and Outcomes

This report links to the Corporate Priority 1a. "Provide quality, affordable housing including increasing homelessness accommodation".

3.5 Adopting a Preventative Approach

There are no issues arising directly from this report.

3.6 Involving Communities and Other Stakeholders

No external consultation has taken place on this report.

3.7 Ensuring Equalities

There are no equality issues arising directly from this report.

3.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

3.9 IT Issues

There are no IT issues arising directly from this report.

4 Summary

The HRA Capital Plan for 2014/15 to 2017/18 provides for:

- £ 49.840 million for Phase 2 of New Social Housing;
- £30.905 million for investment in existing stock.

The Revenue Budget Reflects:

- Revisions in terms of the revenue costs associated with the incident at Newbyres Crescent;
- Revisions to the repairs budget to reflect current demand;
- The HRA reserve is projected to be £24.723 million at 31st March 2018, and this will be required to finance the majority of existing investment commitments and the uncommitted reserve will reduce to £8.039million at 31st March 2029;
- A comprehensive update of the financial model.

5 Recommendations

Council is recommended to:-

- Approve the revised HRA Capital Plan for 2014/15 to 2017/18 as detailed in Appendix 1;
- Approve the revised HRA Revenue Budget for 2014/15 and 2017/18 as detailed in Appendix 2;
- Note the Projected Outturn against revised Budget for The HRA Revenue Account and Capital Plan for 2014/15.

Date 04th September 2014

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Background Papers: HRA Capital Plan and Revenue Budget

Declaration Box

Instructions: This box must be completed by the author of the report. The box will be copied and saved by the Council Secretariat who will delete it from the report prior to photocopying the agenda.

Title of Report: Housing Revenue Account Capital Plan 2014/15-2016/17 and Revenue Budget 2014/15 – 2015/16

Meeting Presented to: Midlothian Council

Author of Report: Gary Fairley, Head of Finance and Integrated Service Support

I confirm that I have undertaken the following actions before submitting this report to the Council Secretariat (Check boxes to confirm):-

- ☒ ***All resource implications have been addressed. Any financial and HR implications have been approved by the Head of Finance and Integrated Service Support.***
- ☒ ***All risk implications have been addressed.***
- ☒ ***All other report implications have been addressed.***
- ☒ ***My Director has endorsed the report for submission to the Council Secretariat.***

For Cabinet reports, please advise the Council Secretariat if the report has an education interest. This will allow the report to be located on the Cabinet agenda among the items in which the Religious Representatives are entitled to participate.

Likewise, please advise the Council Secretariat if any report for Midlothian Council has an education interest. The Religious Representatives are currently entitled to attend meetings of the Council in a non-voting observer capacity, but with the right to speak (but not vote) on any education matter under consideration, subject always to observing the authority of the Chair.