

**Housing Revenue Account  
Capital Plan 2014/15 – 2016/17 and Revenue Budget 2014/15 – 2015/16****Report by Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of Report**

This report outlines revisions arising from a review of the Housing Revenue Account Capital Plan and the impact on the Revenue Budget.

**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. Further sites have since been identified and approved and requires investment of £36.529 million for the period 2014/15 to 2016/17.

**2.2 Capital Investment - Other**

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

**2.3 Summary of Capital Investment**

The above changes are reflected in the proposed Capital Plan for 2014/15 to 2015/16 as detailed in appendix 1 which shows total investment of £61.142 million with a net borrowing required over the period of £54.917 million.

The longer term financial projections now show that the overall investment for Phase 1 and Phase 2 new build properties of £168.356 million and in existing properties of £56 million is considered affordable with a rent increase of 6% per annum from 2014/15 – 2015/16 and average increases of 4% thereafter.

To put affordability into context, over the period 2013/14 to 2027/28 HRA Revenue expenditure is expected to total £475 million with a projected working balance of approximately £2.595 million at 31<sup>st</sup> March 2028. This equates to 0.55% of this total expenditure.

## **2.4 Revenue Expenditure**

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

The HRA revenue budget has been projected forward to 2027/28 and reflects the revised Capital plan as well as the following key items and 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;
- Provision for the increase in voids and irrecoverables due to the effects on arrears caused by Welfare Reform and the mitigating actions to help offset these effects by freezing the 6% rent increase for temporary accommodation for 2014/15 and contracting Places for People to liaise and support tenants as emphasised in the Welfare Reform Report on the same agenda;
- Projected provision for inflation over future years as per GDP Deflator and BCI Tender Prices Index;
- 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. Council, 22<sup>nd</sup> February 2011, agreed a rent increase of 6% from 2011/12 to 2015/16 with rent increases in future years estimated to average 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, will remain in the lower quartile.

## **3 Report Implications**

### **3.1 Resource**

The £108.458 million projected cost for Phase 1 and £59.898 million for phase 2 of the Social Housing Programme is financed from the rent income from the existing and new housing stock together with £5.255 million funding for Phase 1 and £1.843 million for Phase 2 from Scottish Government through the Incentivising New Build Programme.

### **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 affordability of current plans is marginal with a longer term rents strategy of increases of 4%.

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 2016/17 provides for:

- £36.529 million as part of Phase 2 for the New Social Housing Programme;
- £24.613 million investment in existing stock and other projects.

The Revenue Budget Reflects:

- Revisions made to the Capital Plan and the 6% rent increase with effect from 2013/14 to 2015/16 approved by Council on 22<sup>nd</sup> February 2011;

- Revisions made to the Voids and Irrecoverables figure to reflect the increase in arrears due to Welfare Reform and the mitigating actions to help offset these effects;
- The HRA reserve is projected to be £21.569 million at 31<sup>st</sup> March 2016, and this will be required to finance existing investment commitments.

## **5 Recommendations**

Council is recommended to:-

- Approve the revised HRA Capital Plan for 2014/15 to 2015/16 as detailed in Appendix 1;
- Approve the revised HRA Revenue Budget for 2014/15 and 2015/16 as detailed in Appendix 2.

**Date 13<sup>th</sup> January 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.*

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*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.*