

Housing Revenue Account Capital Plan and Revenue Budget 2015/16 – 2018/19

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 2015/16 – 2018/19;
- An update on the projected outturn against budget for 2015/16.

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. Four sites have since been completed and a programme is in place for a further nine sites including the Newbyres Crescent rebuild. Spend to 31st March 2015 was £14.708 million and projected spend for 2015/16 to 2018/19 is £45.190 million.

2.2 Capital Investment - Other

The remaining elements of the HRA Capital Plan are detailed in appendix 1 and have been amended to reflect the latest estimated costs of ongoing and planned projects. There are no material changes to these.

At Council on 23rd of June, an enquiry was made if funding of £5.722 million could be transferred from the HRA to the General fund to fund Footpath Repairs. The HRA reserve is fully committed to fund the New Social Housing project and investment in existing stock and is projected to fall to a contingent level of £2.224 million by 2029/30. Funding this project would therefore require either a reduction in continuing investment in the existing Capital Programme or an increase in weekly rental charges which would also have an impact on future phases of the New Social Housing Programme.

Proposals for a revised rental strategy is due to go to consultation with tenants during September 2015; the results will be presented to Council later in the year together with the implications of the options for future new build and investment in existing assets.

2.3 Updated Capital Plan

The changes described above are reflected in the Capital Plan for 2015/16 to 2018/19 and are detailed in appendix 1 which shows total investment of £80.439 million with a net borrowing required over the period of £72.277 million.

2.4 Revenue Expenditure

The HRA revenue updated model has been projected forward to 2029/30 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 impact on rental income stream as a result of the implementation of Universal Credit;
- Projected provision for inflation over future years as per GDP Deflator and BCI Tender Prices Index;
- The provision for anticipated costs associated with Newbyres Crescent;
- 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 2015/16 to 2029/30 HRA Revenue expenditure is expected to total £486 million with a projected working balance of approximately £2.224 million at 31st March 2030. This equates to 0.46% of this total expenditure.

However affordability is heavily 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 and the long term forecast incorporate in the model assumes rent increases in future years of 4%.

The revised revenue budget for 2015/16 and indicative revenue budget for 2016/17 – 2018/19 are detailed in appendix 2.

2.5 Capital Plan and Revenue Account Projected Outturn 2015/16

At this stage there are no material variances to be reported for 2015/16 for Capital and Revenue. A further update will be provided to Council in November.

3 Report Implications

3.1 Resource

The projected cost for Phase 2 of the New Social Housing Programme for 2015/16 to 2018/19 is £45.190 million. Investment for other Capital Investment projects is expected to be £35.249 over this period with a net borrowing requirement of £72.277 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 2015/16 to 2018/19 provides for:

- £45.190 million for Phase 2 of New Social Housing;
- £35.249 million for investment in existing stock.

The Revenue Budget Reflects:

- A comprehensive update of the financial model;
- Revisions in terms of the revenue costs associated with the incident at Newbyres Crescent;
- A projected HRA reserve of £21.117 million at 31st March 2019, which will be required to finance the majority of the existing investment commitment and is projected to reduce to £2.224 million at 31st March 2030.

5 Recommendations

Council is recommended to:-

- Approve the revised HRA Capital Plan for 2015/16 to 2018/19 as detailed in Appendix 1;
- Approve the revised HRA Revenue Budget for 2015/16 and note the Indicative Revenue Budget for 2016/17 to 2018/19 as detailed in Appendix 2;
- Note the Projected Outturn against revised Budget for The HRA Revenue Account and Capital Plan for 2015/16.

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Background Papers: HRA Capital Plan and Revenue Budget