

**Housing Revenue Account
Capital Plan and Revenue Budget 2016/17 – 2021/22**

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 2016/17 – 2021/22;
- An update on the projected outturn against budget for 2016/17.

2 Background

2.1 Capital Investment – New Social Housing Phase 2 & Phase 3

The HRA Capital plan allowed for investment of £59.898 million for Phase 2 of the New Social Housing Programme. Five 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 2016 was £21.508 million and projected spend for 2016/17 to 2021/22 is £38.390 million.

On 15th December 2015 Council approved a 5% rent increase from 2016/17 to 2018/19, this increase will allow for investment of £36 million for Phase 3 of New Social Housing, this will allow approximately a further 240 units to be built.

2.2 Capital Investment - Other

Elsewhere on today's agenda is a report discussing the options associated with essential works at Pentland House. This report assumes the recommended Option 3 will be approved therefore a cost of £0.138 million has been incorporated within the HRA Capital Plan.

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.

2.3 Updated Capital Plan

The changes described above are reflected in the Capital Plan for 2016/17 to 2021/22 and are detailed in appendix 1 which shows total investment of £119.392 million with a net borrowing required over the period of £113.412 million.

2.4 Revenue Expenditure

The HRA revenue model has been updated and projected forward to 2030/31 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 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. Over the period 2016/17 to 2030/31 HRA Revenue expenditure is expected to total £545 million with a projected working balance of approximately £2.114 million at 31st March 2031. This equates to 0.39% of this total expenditure.

However, affordability is heavily dependent on the future year's rents strategy, Council on 15th December 2015 agreed a rent increase of 5% from 2016/17 to 2018/19 and the long term forecast incorporated in the model assumes rent increases in future years of 3%.

The revised revenue budget for 2016/17 and indicative revenue budget for 2017/18 – 2021/22 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 2016/17 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 and Phase 3 of the New Social Housing Programme for 2016/17 to 2021/22 is £38.390 million and £36 million respectively. Investment for other Capital Investment projects is expected to be £45.002 over this period with a net borrowing requirement of £113.412 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. 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 2016/17 to 2021/22 provides for:

- £38.390 million for Phase 2 of New Social Housing;
- £36 million for Phase 3 of New Social Housing;
- £45.002 million for investment in existing stock.

The Revenue Budget Reflects:

- A comprehensive update of the financial model;
- A projected HRA reserve of £27.981 million at 31st March 2022, which will be required to finance the majority of the existing investment commitment and is projected to reduce to £2.114 million at 31st March 2031.

5 Recommendations

Council is recommended to:-

- Approve the revised HRA Capital Plan for 2016/17 to 2021/22 as detailed in Appendix 1;
- Approve the revised HRA Revenue Budget for 2016/17 and note the Indicative Revenue Budget for 2017/18 to 2021/22 as detailed in Appendix 2;
- Note the Projected Outturn against revised Budget for The HRA Revenue Account and Capital Plan for 2016/17.

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Report Contact:

Name Lisa Young Tel No 0131-271-3111

lisa.young@midlothian.gov.uk

Background Papers: HRA Capital Plan and Revenue Budget

