

<b>Report of:</b>	<b>Head of Housing and Head of Finance</b>
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<b>Key Decision:</b>	<b>No</b>
<b>Report Track:</b>	<b>Cabinet: 31/01/13 Council: 13/02/13</b>

**CABINET  
31 JANUARY 2013  
HOUSING REVENUE ACCOUNT BUDGETS 2013-14 TO 2015-16**

**1 Purpose of Report**

- 1.1 To review the 2012-13 Housing Revenue Account Budget.
- 1.2 To introduce the Housing Revenue Account budgets for the period 2013-14 to 2015-16.
- 1.3 To recommend proposed Housing Revenue Account budgets for 2013-14, 2014-15 and 2015-16 for consideration by Council on 13 February 2013.

**2 Recommendations**

- 2.1 That the revised position with regard to estimated income and expenditure in respect of the 2012-13 Housing Revenue Account is noted.
- 2.2 That Cabinet consider the proposed Housing Revenue Account budgets for the period 2013-14 to 2015-16 as set out as part of Appendix 1 and recommend to Council on 13 February 2013:-
  - (i) A minimum level of working balances for 2013-14, 2014-15 and 2015-16.
  - (ii) Proposed Housing Revenue Account budgets for 2013-14, 2014-15 and 2015-16.

**3 Key Issues and Reasons for Recommendation**

- 3.1 This report considers proposed three year HRA budgets for 2013-14, 2014-15 and 2015-16 which have been formulated within the framework provided by the revised HRA Business Plan recommended by Cabinet on 17 January 2013.

- 3.2 A review of the 2012-13 HRA budget, together with proposed HRA budgets for the period 2013-14 to 2015-16 are attached as Appendix 1. The proposed budgets have been formulated in accordance with the assumptions set out in the HRA Business Plan, with projected levels of income and expenditure as summarised below:-

	<u>2013-14</u> £	<u>2014-15</u> £	<u>2015-16</u> £
Estimated Income	19,261,890	19,548,930	19,991,880
Estimated Expenditure	19,243,230	19,525,150	19,978,510
Transfer to working balances	18,660	23,780	13,370

- 3.3 The effect of the proposed budgets on the estimated level of working balances is set out in Appendix 2. In view of the risks associated with the management of the HRA under self-financing, minimum working balances of 10% of net operating expenditure have been assumed in accordance with the Business Plan throughout the three year budget period.

#### **4 Relationship to Corporate Priorities**

- 4.1 The proposed HRA budgets would contribute to the following service aims, which form part of the proposed 2013-14 “Place” Priority Delivery Plan, to be considered as part of a separate report elsewhere on your agenda, i.e.
- (i) Maintain and improve the Council’s housing stock.
  - (ii) Manage the Council’s housing stock.
  - (iii) Support vulnerable Council tenants to live independently in their own homes.

#### **5 Report Detail**

- 5.1 The devolved system of “self-financing” replaced the Housing Revenue Account (HRA) subsidy system with effect from 1 April 2012.
- 5.2 Details of “self-financing” were reported to Cabinet on 21 July 2011 and enables the Council to retain all of it and no longer pay negative subsidy to the Government. However, “in return” the Council has had to “take on” a share of the national housing debt by making a £59.245 million settlement payment to the Government. The Government has also limited the amount of HRA finance which the Council can borrow through the imposition of an £85.029 million “borrowing cap”.
- 5.3 In order to implement self-financing Council on 15 February 2012 approved a 30 year HRA Business Plan. Following the conclusion of the settlement payment and associated borrowing, this plan was revised by Council on 4 July 2012 to account for changes to certain key assumptions.

- 5.4 The agreed Business Plan (as approved by Council on 4 July 2012) was reviewed again by Cabinet on 17 January 2013. A revised Business Plan has been formulated as a result of this review and has been recommended by Cabinet to Council on 13 February 2012 for approval.
- 5.5 The revised HRA Business Plan has been used to provide the financial framework within which proposed three year HRA budgets for the period 2013-14 to 2015-16 have been formulated.

### **The Housing Revenue Account Budget 2012-13**

- 5.6 A review of the 2012-13 budget is presented as part of Appendix 1.
- 5.7 Estimated income for 2012-13 is now forecast to be £19,102,130 compared to the original budget estimate of £19,095,730. The £6,400 increase in income results from a reduction in the estimated number of dwellings sold under the Right to Buy.
- 5.8 Estimated expenditure for 2012-13 is now forecast to be £19,535,960 compared to the original budget estimate of £18,908,010. The reasons for this estimated £627,950 net increase in expenditure are set out below:-
- (i) Housing subsidy. Estimated additional expenditure of £60,000 following a recalculation of the Council's negative subsidy liabilities in 2011-12.
  - (ii) Repairs and Maintenance. Estimated additional expenditure of £60,000 as a result of increased requests for repairs to paths, boundary walls and tarmacked areas.
  - (iii) Supervision and Management. Estimated additional expenditure of £6,890 as a result of increased energy costs.
  - (iv) Capital Financing. Estimated budget savings of £64,640 as a result of lower interest rates and a reduction in the depreciation charge.
  - (v) Revenue Contribution to Capital Outlay (RCCO). Additional RCCO during 2012-13 in accordance with the revised HRA Business Plan and the Council's policy of utilising any surplus above the minimum amount required in working balances as a Revenue Contribution to Capital Outlay.
- 5.9 As a result of these changes it is now estimated that £433,830 will be transferred from working balances in 2012-13. This compares to the estimated £187,720 to be transferred to working balances as part of the original budget.

### **Housing Revenue Account Budgets 2013-14 to 2015-16**

- 5.10 The revised HRA Business Plan has been used as the basis for preparing proposed HRA budgets for the period 2013-14 to 2015-16, attached as Appendix 1. As a result, the following key assumptions have been used in formulating the proposed budgets:-

- (i) Rent Income. Annual rent increases (in accordance with the Government’s national rent policy) of 3.81% in 2013-14 and then RPI plus 0.5% in 2014-15 and 2015-16 to achieve rent convergence in 2015-16.
- (ii) Dwelling changes. 40 Right to Buy sales together with the sale of 15 vacant pre-1970 one bedroom bungalows have been assumed during the budget period. It has also been assumed that the remaining Reema flats on the Moss Road Estate will be closed during 2014-15 pending their future demolition.
- (iii) Borrowing. Borrowing of £82.007 million has been assumed throughout the budget period, with a further £3.022 million of borrowing (to the Council’s £85.029 million borrowing cap) in 2015-16.
- (iv) Interest Rates. The following interest rates for borrowing have been assumed:-
  - \* Existing debt of £19.762 million at the average rate of 6.5% per annum.
  - \* Existing debt of £3 million (November 2011 borrowing) at the average rate of 4.01% per annum.
  - \* Existing debt of £59.245 million (settlement payment borrowing) at 3.48% per annum.
  - \* New borrowing of £3.022 million (for additional capital expenditure) in 2015-16 of the Business Plan at 5% per annum.
- (v) Void Rate. An annual void rate of 1% has been assumed throughout the period.
- (vi) Inflation. The following rates have been assumed:-

	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Rent Income	2.6%	2%	2%
Building Costs	4%	4%	4%
Energy Costs	5%	5%	5%
Other Expenditure	2%	2%	1%

- (vii) Responsive Repairs and Cyclical Maintenance. Unless otherwise stated a continuation of current policies and existing levels of service has been assumed throughout the budget period which includes:-
  - \* The servicing of all gas and solid fuel heating appliances and the continuation of a “three star” maintenance service.
  - \* A responsive repairs service delivered in accordance with current timescales, together with:-

- an enhanced provision for fencing repairs as recommended by the Housing Policy Development Committee on 22 October 2012;
  - the appointment of two additional trade apprentices.
  - \* Works to void dwellings in accordance with the Council's lettable standard including the provision of a second door to bungalows which remain without this facility and "two bedroom conversion works" to "Type 40" one bedroom bungalows.
  - \* Annual contributions to reserve accounts to provide for:-
    - The replacement of door entry systems and sheltered housing scheme lifts and fire alarm systems when required.
    - The maintenance of the internal communal areas of flat blocks on a 7 year cycle.
- (viii) Housing Management. A continuation of current policies and existing level of service has been assumed throughout the budget period for housing management activities in respect of rent collection and arrears recovery, the allocation and letting of vacant dwellings, tenant participation and estate management including action regarding anti-social behaviour. The assumed level of service includes:-
- \* The provision of the current Vulnerable Tenants Grass Cutting and Internal Decoration service to households who are aged over 70 or who are in receipt of a defined benefit. (Note: The proposed budgets have been increased by £70,000 per annum as a result in an increase in the number of qualifying households requesting internal decorations).
  - \* The continued provision of the Benion Road area CCTV system.
  - \* The provision of an annual minor works budget.
  - \* The net cost of providing sheltered housing and communal alarm monitoring service following the estimated receipt of supporting people funding from Staffordshire County Council. (Note: In view of the expected reduction in supporting people funding for the communal alarm monitoring service additional HRA funding of £100,000 per annum has been assumed throughout the budget period).
- (ix) Revenue Contributions to Capital Outlay (RCCO). In accordance with agreed policy any surplus above the minimum amount required in working balances has been utilised as a RCCO. As a result the following RCCO is assumed during the budget period:-

<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
£	£	£
4,210,650	4,255,440	4,573,420

- 5.11 The projected levels of income and expenditure for the three year budget period are summarised below:-

	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
	£	£	£
Estimated Income	19,261,890	19,548,930	19,991,880
Estimated Expenditure	19,243,230	19,525,150	19,978,510
Transfer to working balances	18,660	23,780	13,370

### **Effect on Working Balances**

- 5.12 The effect of the proposed budgets on the estimated level of working balances is attached as Appendix 2. In view of the risks associated with the management of the HRA under self-financing the HRA Business Plan assumes that a minimum working balance comprising 10% of annual expenditure is maintained. A minimum working balance of 10% of net operating expenditure has therefore also been assumed throughout the three year budget period.

- 5.13 The level of working balances throughout the budget period is summarised below:-

<u>Working Balances</u>	£
At 31 March 2012	1,920,877
At 31 March 2013	1,487,047
At 31 March 2014	1,505,707
At 31 March 2015	1,529,487
At 31 March 2016	1,542,857

<b>6 Implications</b>
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#### **6.1 Financial**

The financial implications have been referred to throughout the report.

#### **6.2 Legal**

None

#### **6.3 Human Resources**

The estimated budgets include provision for employees.

Subject to the estimated budgets being agreed the terms and conditions for the two additional “trade” apprentices would be in accordance with the Council’s Pay and Grading Structure for Craft Employees.

**6.4 Section 17 (Crime Prevention)**

Actions to combat anti-social behaviour on the Council’s estates funded through the proposed budgets would have positive implications for crime prevention.

**6.5 Human Rights Act**

None

**6.6 Data Protection**

None

**6.7 Risk Management**

Self-financing increases the risks associated with the management of the HRA. In order that these risks can be managed Cabinet have revised the HRA Business Plan, which has been recommended to Council on 13 February 2013 for approval.

The assumptions used to formulate the revised Business Plan have been subject to a detailed risk analysis as set out in Appendix 8 to HRA Business Plan report to Cabinet on 17 January 2013. As the proposed HRA budgets for the period 2013-14 to 2015-16 have been formulated in accordance with the Business Plan assumptions, this risk analysis also applies to the proposed three year budget.

A number of actions are undertaken to further mitigate risks associated with the management of the HRA which include:-

- (i) The adoption of a prudent approach to budgeting.
- (ii) The maintenance of an adequate level of working balances, comprising a minimum of 10% of net operating expenditure.
- (iii) Housing Revenue Account Business Plan projections together with associated sensitivity analysis.
- (iv) Firm budgetary control through regular monitoring of actual and forecast income and expenditure.
- (v) The implementation of an annual internal Audit Plan and scrutiny from the External Auditor.

**6.8 Equality & Diversity**

The revised HRA Business Plan has been subject to an Equality Impact Assessment (EIA). As the proposed HRA budgets for the period 2013-14 to

2015-16 have been formulated in accordance with the revised Business Plan, the Business Plan EIA also applies to the proposed three year budget.

The outcome of the Business Plan EIA is that it would have a positive impact for certain of the protected characteristics with no identified negative implications.

**6.9 Best Value**

**7 Appendices to the Report**

- Appendix 1: HRA Budget Review 2012-13 to 2015-16
- Appendix 2: HRA Working Balances 2012-13 to 2015-16

**Previous Consideration**

Housing Revenue Account Business Plan	Cabinet	21 July 2011
Housing Revenue Account Business Plan	Council	15 February 2012
Housing Revenue Account Business Plan	Council	4 July 2012
Housing Revenue Account Business Plan Review	Cabinet	17 January 2013

**Background Papers**



## APPENDIX 1

## HRA BUDGET REVIEW

	Original Budget 2012-13 £	Revised Budget 2012-13 £	Variance 2012-13 £	Budget 2013-14 £	Budget 2014-15 £	Budget 2015-16 £
<b>Income</b>						
Dwelling Rent	(18,623,860)	(18,630,260)	(6,400)	(18,789,220)	(19,075,590)	(19,517,630)
Non Dwelling Rent	(412,400)	(412,400)	0	(413,100)	(413,490)	(413,550)
Interest	(1,610)	(1,610)	0	(1,460)	(1,460)	(1,470)
Other	(12,170)	(12,170)	0	(12,420)	(12,700)	(13,080)
General Fund Cont.	(45,690)	(45,690)	0	(45,690)	(45,690)	(46,150)
<b>Total Income</b>	<b>(19,095,730)</b>	<b>(19,102,130)</b>	<b>(6,400)</b>	<b>(19,261,890)</b>	<b>(19,548,930)</b>	<b>(19,991,880)</b>
<b>Expenditure</b>						
Housing Subsidy	0	60,000	60,000	0	0	0
Repairs and Maintenance	4,178,770	4,238,770	60,000	4,268,990	4,356,830	4,339,110
Supervision & Management - General	3,080,970	3,087,860	6,890	3,243,510	3,332,300	3,374,830
Supervision & Management - Special	544,320	544,320	0	585,260	608,090	621,260
Increased provision for bad debts	196,960	196,960	0	200,900	204,920	206,970
Capital Financing	7,110,560	7,046,100	(64,460)	6,733,920	6,767,570	6,862,920
RCCO as per Business Plan	3,796,430	4,361,950	565,520	4,210,650	4,255,440	4,573,420
<b>Total Expenditure</b>	<b>18,908,010</b>	<b>19,535,960</b>	<b>627,950</b>	<b>19,243,230</b>	<b>19,525,150</b>	<b>19,978,510</b>
<b>(Surplus)/Deficit</b>	<b>(187,720)</b>	<b>433,830</b>	<b>621,550</b>	<b>(18,660)</b>	<b>(23,780)</b>	<b>(13,370)</b>
<b>Working Balance</b>						
B/fwd	(1,920,877)	(1,920,877)	0	(1,487,047)	(1,505,707)	(1,529,487)
In Year	(187,720)	433,830	621,550	(18,660)	(23,780)	(13,370)
C/fwd	(2,108,597)	(1,487,047)	621,550	(1,505,707)	(1,529,487)	(1,542,857)
Minimum Working Balance	1,487,040	1,487,040		1,505,700	1,529,480	1,542,850

HRA WORKING BALANCES 2012-13 TO 2015-16

	Original £	Revised £	Variance £
HRA Working Balance at 01/04/12	-1,920,877	-1,920,877	0
Estimated Transfer (to) / from balances	-187,720	433,830	621,550
<b>Estimated Working Balance at 31/03/13</b>	<b>-2,108,597</b>	<b>-1,487,047</b>	<b>621,550</b>
Estimated Transfer (to) / from balances		-18,660	-18,660
<b>Estimated Working Balance at 31/03/14</b>		<b>-1,505,707</b>	<b>-1,505,707</b>
Estimated Transfer (to) / from balances		-23,780	-23,780
<b>Estimated Working Balance at 31/03/15</b>		<b>-1,529,487</b>	<b>-1,529,487</b>
Estimated Transfer (to) / from balances		-13,370	-13,370
<b>Estimated Working Balance at 31/03/16</b>		<b>-1,542,857</b>	<b>-1,542,857</b>