

Draft 2013-14 HRA Budget and 30 Year Business Plan**1. Executive Summary**

- Draft budgets have been prepared for 2013-14. These will be updated and presented to Cabinet at its February meeting.
- Expenditure Budget 2013-14 £16.633m (2012-13 £13.557m) an increase of 22.7%
- Income Budget 2013-14 £15.896m (2012-13 £15.387m) an increase of 3.3%.
- Stock numbers as at 1 April 2012 (excluding shared ownership properties) were 3,881. Stock numbers expected to be 3,877 at 1 April 2013.
- Proposed average weekly dwelling rents in 2013-14 to increase by 4.77% in line with Government Rent Restructure guidance.
- Interest of £2.347m has been included on HRA self-financing debt of £67.456m.
- Revenue financing of the Capital Programme is included at £5.314m.
- The Supported Housing Service shows a predicted net expenditure of £94,180 (2012-13 £120,410)

2. Introduction

This appendix outlines the 2013-14 budgets for the Housing Revenue Account (HRA) and sets out the proposals for the setting of rent and discretionary fees and charges.

The HRA is a ring-fenced account, which means that it may not be supported by the General Fund and Council Tax or vice-versa. Expenditure and income that may be charged to the account are defined either by statute or regulation. The HRA is not permitted by law to be in deficit. The HRA holds balances at 1 April 2012 of £1.955m.

The HRA set a net income budget for 2012-13 of £1.830m. The latest forecast is for an in-year surplus of £0.925m, giving an estimated balance of £2.880m at 1 April 2013.

3. Integrated Business Planning and Budgeting

As part of the Council's integrated planning and performance framework, the budget and business planning process links to our corporate priorities. The business plans for each service reflect how we will deliver our corporate priorities over the next five years. Heads of Service have prepared their budgets to reflect their plans and strategies and are in accordance with the principles outlined in the Council's Medium Term Financial Plan (MTFP). In my opinion, as S151 officer, the estimates for 2013-14 are robust and the level of reserves adequate. A sensitivity analysis has been carried out on the key components of the budget.

In addition to adopting the main principles incorporated in the MTFP, budget holders have also followed the principles of the 30 year HRA Business Plan in preparing their estimates. Planned maintenance budgets are in line with expenditure needed to achieve and maintain Decent Homes Plus standard. Rent increases are in line with the rent restructuring policy.

The estimates have been prepared in accordance with the Housing Strategy, so that resources are directed towards HRA priorities. The Council's key priorities for housing are:

- To provide more high quality affordable housing
- Target capital expenditure on the Council housing stock to continue to achieve the decent homes standard
- Reduce the incidence of homelessness
- Work with others in support of the housing needs of the district.

From April 2012 the financing of social housing has radically changed. The HRA subsidy system has been replaced by a reformed system of council housing finance through powers enacted in the Localism Act. The 30 year HRA business plan finance model becomes more important as the Council has to rely on its own resources to maintain a positive HRA Reserve given the constraints of the Housing Debt Cap (£74.701m).

4. Consultation and Scrutiny

The Council will consult on this draft HRA budget prior to final approval in February 2013. The draft budget and business plan has been reviewed by Governance and Audit Committee.

5. Value for Money

A review will be undertaken of how costs associated with ancillary services are dealt with, to ensure a consistent and equitable approach is applied across the Council's housing stock. Any proposed changes will be within the limits of the rent income formula. As part of this review, it will be important to track and consider the impact on tenants of any changes to housing benefit regulations, specifically on some services potentially no longer being 'eligible' for the purposes of housing benefit.

6. Supported Housing

Please refer to the Restricted Report by the Portfolio Holder for Housing Landlord and Interim Housing Manager on the review of Supported Housing presented to Cabinet on 20 November 2012.

7. Draft HRA Estimates for 2013-14

The following table shows the HRA estimates by type of spend presented as required by the Chartered Institute of Public Finance and Accountancy.

	Budget 2012-13	Draft Budget 2013-14	Variance
	£'000	£'000	£'000
Expenditure			
Employee Related Expenses	2,604	2,386	(218)
Premise Related Expenses	1,828	1,976	148
Transport Related Expenses	362	322	(40)
Supplies and Services	1,669	1,825	156
Third Party Payments	697	561	(136)
Support Services	189	247	58
Depreciation	1,590	1,598	8
Direct Revenue Financing	2,318	5,314	2,996
Interest Payable	2,300	2,404	104
Total Expenditure	13,557	16,633	3,076
Income			
Rents	(13,738)	(14,380)	(642)
Fees and Charges	(687)	(698)	(11)
Grants	(637)	(511)	126
Other	(325)	(307)	18
Total Income	(15,387)	(15,896)	(509)
Surplus	(1,830)	737	2,567

Employee Costs

The estimates are based on the approved establishment as at 1st September 2012. For 2013-14 all employees are budgeted at 98% of establishment, to take account of staff turnover ratios. The estimates assume a 1% pay award for 2013-14. The reduction in budget reflects the recent CSU restructure and changes outlined in the supporting people report.

Premises Costs

The premises budgets include the repair and maintenance costs of the Council's housing stock, both planned and responsive, and are in line with the HRA Business Plan in order to achieve the Decent Homes Plus standard. The increase in budget relates to asbestos clearance and recognition of costs previously charged to the General Fund but relating to the maintenance of housing sites.

Transport Costs

Transport costs relate to the mileage costs and lump sums payable to officers as well as vehicle contract payments. In light of current price increases, fuel budgets will be subject to an on-going scrutiny during 2013-14. The CSU has re-tendered the vehicle contract and reduced the number of vehicles in use due to the recent restructure. This has resulted in an overall saving for this budget line.

Supplies and Services

The provision of bad debts has been assumed to increase in 2013-14 by £147,000 as a result of the introduction of Welfare Reforms.

Third Party Payments

Third party payments represent payments for the back office services provided now by Compass Point Business Services (East Coast) Ltd (CPBS) and legal services provided by Lincolnshire Legal.

Support Services

Central support service charges are for services now provided by the central Council departments, such as communications, risk and performance management.

Capital Charges and Capital Financing

A provisional contribution of £5.314m has been made from revenue to finance the draft 2013-14 HRA Capital Programme.

Income

The majority of income comes from weekly rents of the housing stock. The estimates take account of the proposed increases in housing rent levels and other rents and charges.

Rent levels for 2013-14 have been increased in line with the Government's Rent Restructure guidance, based on September RPI of 2.6% and rent convergence in 2015/16. The proposed average rent for 2013-14 is therefore £73.91 representing an increase of 4.77% on the current average rent of £70.55, (which is slightly above the £70.38 average rent figure reported in February 2012 due to revised rents following relet at formula rent in line with the Council's policy). It is proposed that garage rents are also increased in line with the dwelling rents.

Charges for sewerage are increased in line with the annual increase applied by Anglian Water. This has been provisionally included at 5% and will be revised once the water inflation rate is known. In November 2012, Cabinet approved recommendations to review the level of sewage charges for both Council tenants and private homeowners who are connected to the Council's sewage treatment facilities. Currently, the HRA funds a shortfall of around £266,000, that being the difference between the expenditure incurred in operating the sewage treatment service, and the income recovered through sewage charges. Further legal work is currently being undertaken to establish where the Council may increase its charges and, subject to this work being concluded, it is anticipated that charges will be increased.

Supporting People Grant income is received from Lincolnshire County Council to support the cost of supported housing to tenants. The current Supporting People contract with Lincolnshire County Council is due to expire in March 2013 but an extension has been agreed to 30 September 2013 and pending discussions on future delivery arrangements a new contract may be awarded from the 1 October 2013.

Fees and Charges

It is proposed to increase some of the fees and charges in 2013-14 and these are detailed in Appendix B.

The Sheltered Housing budget is a ring-fenced account within the HRA and is expected to show net cost of £94,180. The proposed Supporting People charges for 2013-14 are shown in Appendix B.

8. Forward Estimates

The Council has modelled the HRA financial plans over a thirty year period using a business planning tool provided by Sector. This models the estimated expenditure and income associated with the HRA over this period and shows what funds are available to support the asset management strategy. The 2013-14 model indicates that the Council's financial plan is viable, meeting and maintaining identified capital investment in accordance with stock condition survey and maintaining a viable revenue account throughout the life of the business plan, with surpluses accruing.

The 30 Year Operating Account is attached at Appendix C.

9. Capital Programme

The Council prepares a rolling five year capital programme, approved annually before the start of the year. The changes to the HRA financing regime potentially provide wide ranging options for the HRA's capital investment programme. As a result a baseline programme has been prepared, which presents an affordable programme of new build, major repairs, disabled adaptations and other capital spend. This is set out in the following table. This is based upon the major repairs programme produced from stock condition information and is in line with current asset management plans.

The Business Plans indicates that surpluses will be available for investment in HRA stock. Members will wish to consider options for further investment arising from the business plan report and these will be included into this baseline programme as they are approved

Scheme	13-14 £'000	14-15 £'000	15-16 £'000	16-17 £'000	17-18 £'000
New Build	1,900	1,400	900	1,100	1,100
Central Heating Upgrades	1,550	1,948	1,996	2,046	2,097
Kitchens and Bathrooms	2,200	2,101	2,101	2,154	2,208
Asbestos	450	461	473	485	497
Re-roofing	290	707	777	796	816
Housing Site Enhancements	150	154	158	162	166
Disabled Adaptations	376	385	395	405	415
Sewerage Treatment Refurbishment	60	60	60	60	60
ICT Strategy	20	20	20	20	20
Refurbishment of Community Centre at Arthurs Avenue, Holbeach	35	-	-	-	-
Total Programme	7,031	7,236	6,880	7,228	7,379
Financing					
Major Repairs Reserve/Direct Revenue Financing	6,912	7,114	6,754	7,099	7,247
Capital Receipts	119	122	126	129	132
Total Financing	7,031	7,236	6,880	7,228	7,379

10. Risk/Sensitivity

The Council must set a budget for the HRA, which is a realistic statement of its estimated income and expenditure for the coming year based upon information currently available. The HRA cannot, by law, be in deficit. As a ring-fenced account the HRA maintains its own reserves. The minimum level of working capital balances is set at £1.5m. In addition, the HRA holds an amount of £200,000 earmarked for insurance payments.

Key risk areas which impact on the HRA are as follows:

Financial Management - As service budgets are reduced it is imperative that sound financial management practices are adopted by budget managers to avoid potential overspends and to identify issues swiftly so that they can be dealt with promptly.

Housing Policy - Policy and practice within the HRA will be comprehensively reviewed, in consultation with tenants, in the light of the opportunities in the Localism Act. These will be fully costed and the financial impact on the business plan assessed.

Welfare Reforms – The Welfare Reforms will be implemented from the beginning of April 2013. The Under Occupancy Penalty (bedroom tax) and the Benefits Cap will come into effect in April 2013, followed by the implementation of Universal Credit in October 2013. The reduction in Housing Benefit entitlement for those tenants under occupying their homes and the reduction in benefit for tenants affected by the benefits cap may result in a significant reduction in rent collected by the Housing Management Team and an increase in rent arrears. We are unable to accurately predict the extent of the problem and Government is analysing the results of the Welfare Reform Demonstration Projects. At this stage we are not recommending definitive figures for a reduction in rental income and increase in arrears (bad debt) in this report but will monitor the situation and recommend adjustments in the budget as soon as our position becomes clear.