

BABERGH DISTRICT COUNCIL

To: Strategy Committee	Report Number: M131
From: Head of Housing	Date of meeting: 17 January 2013

HOUSING REVENUE ACCOUNT

- **Draft HRA Budget 2013/14**
- **Proposed Rents and Charges 2013/14**
- **Review and update - Housing Revenue Account Business Plan 2013/14**

1. Purpose of Report

- 1.1 The Draft Housing Revenue Account (HRA) Budget 2013/14, including four year capital programme, is presented within this report for Members' consideration.
- 1.2 The report provides Members with proposed increases to rents and charges for 2013/14 for consideration.
- 1.3 A review of the HRA Business Plan 2013/14 is included within the report.
- 1.4 Proposals for establishing strategic priorities and for use of surplus revenues for the HRA are set out within the report.

2. Recommended to Council

- 2.1 That the Draft HRA 2013/14 Budget as presented in section 8.7 of this report be approved.
- 2.2 That the Draft HRA 2013/17 Capital Programme as contained in Appendix (a) of the report be approved.
- 2.3 That increases to Council rents and charges for 2013/14 be approved as follows:-
- Housing Rents are increased by 5.17%
 - Garage rents are increased by 5.17%
 - Sheltered communal service charges are increased by 5%
 - Sheltered utility charges are decreased by 2.88%.
- 2.4 That the creation of 'new build/acquisitions pot' within the Capital Programme as referred to in Para 8.11 be noted.
- 2.5 That the allocation of Right to Buy receipts between the HRA and General Fund as referred to in Para 8.13 be noted.
- 2.6 That the review of the HRA Business Plan as referred to in Para 8.30 and Appendix (b) be noted.
- 2.7 That the proposals for development of HRA strategic priorities and use of surplus revenues as referred to in Para 8.33 to 8.36 be noted.

The Committee is asked to make recommendation to Full Council on the above matters.

3. Financial Implications

3.1 Financial implications are detailed within the report.

4. Risk Management

4.1 This report is most closely linked with the Council's Corporate / Significant Business Risk No's. O3.

Corporate/Significant Business Risk O3 and other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to act upon the requirements of the Welfare reform Act 2012 and Funding Reforms could lead to unpreparedness for changes due to come into effect in April 2013 and beyond	2 (Occasional)	2 (Noticeable)	Bad debt provision within HRA budgets has been increased to reflect estimated impact of reforms. Welfare Reform Steering Group and HRA action plan have been developed setting out key tasks. Financial Inclusion Project has been proposed in new integrated Operational Delivery Team proposals.
Failure to set a workable balanced budget may lead to significant over/under spend.	1 (Rare of Never)	2 (Noticeable)	Budget has been set in consultation with relevant corporate managers and finance teams.
Tenants are not informed of the rent increases within 4 weeks of the rent change.	1 (Rare or never)	3 (Bad)	Early agreement on rent increases in order to prepare communications to tenants.
Average rent levels are increased above the average Limit Rent meaning that Housing Benefit payments do not cover the rent.	1 (Rare or never)	3 (Bad)	Ensure that any rent increase calculations are below the HB Limit Rent.
Failure to review HRA Business Plan and model impact of budget changes may lead to failure to deliver key business objectives.	1 (Rare or never)	3 (Bad)	Business plan has been reviewed to reflect 2013/14 budget.

5. Consultations

- 5.1 The Tenants Forum will be consulted on rent and charges increases and creation of a new build/acquisitions fund from existing capital programme funding levels on 10 January 2013. The outcome of the consultation will be reported at Strategy Committee 17 January 2013.
- 5.2 The Joint Housing Board (JHB) has been consulted. JHB recommendation is as follows:
- That the proposed HRA budgets 2013/14 and rent and charges increases be approved.

6. Equality Analysis

- 6.1 An equality analysis has been completed and will be considered by the Quality Assurance Group. The outcomes will be reported to Strategy Committee on the 17 January 2013.

7. Shared Service / Partnership Implications

- 7.1 This report relates to the Babergh HRA Draft Budget, rents and charges and Business Plan for 2013/14. Members are advised that a similar report will be produced for Mid Suffolk. To achieve consistency the same strategic approach has been applied to setting the HRA Draft Budget 2013/14, rent increases and HRA Business Plan review. However, income/expenditure levels and self financing arrangements differ between the Councils.

8. Key Information

The Statutory Framework

- 8.1 The Council has a statutory requirement to produce a balanced HRA Budget. The HRA is a ring fenced account containing only the costs arising from the provision and management of the housing stock, offset by rents and service charges, leasehold service charges and other income. All proposed expenditure must be matched by income.
- 8.2 On 1st April 2012 the HRA left the subsidy system and entered into self-financing. The Localism Act 2011, Sections 168 to 175 which relate to housing finance, provided details of the determination settlement payments, with Babergh's calculated at £83.6m.
- 8.3 This was based on projected levels of income, expenditure and existing stock values. Additional borrowing for the full £83.6m was taken out in March 2012 taking long term borrowing levels to £89.3m for the HRA at that date. Borrowing is capped by the Government in the form of a Capital Financing Requirement (CFR) cap. For Babergh this has been set at £97.8m.
- 8.4 The responsibility for regulation of social housing passed from the Tenant Services Authority to the Homes and Communities Agency (HCA) in April 2012. The New Regulatory Framework 2012 sets out standards social housing providers must meet. Co-regulatory principles underpin the approach, it is for landlords to support tenants both to shape and scrutinise service delivery.

8.5 In a report to Strategy Committee in October 2011 proposals for a Joint Housing Board, including the terms of reference, were set out and approved by Members. The role of the Joint Housing Board includes:

- The review and development of the HRA Business Plan; housing landlord strategy and policy development issues; tenant services/housing management functions; housing maintenance and improvement programmes; leasehold property management; compliance with HCA Regulatory Framework and a monitoring role relating to HRA issues.

Budget setting, rents and other financial matters require resolution by the Strategy Committee/Full Council. The Joint Housing Board will have a consultative role on these issues.

8.6 Decent Homes standards have been met, except any refusals. Any newly arising non- decent homes are included within planned maintenance programmes. This information and stock survey data (Ridge Consultants) informs the 2013/2017 Capital Programme funding levels.

The Draft HRA Budget 2013/14

8.7 The HRA revenue budget 2013/14 is shown in the table below with the 2012/13 budget for comparison. The proposed budget has been subject to thorough efficiency considerations to maximise funding opportunities for key business development opportunities and proposals.

Housing Revenue Account Budget 2013/14				
Line Number		2012/1 3 £000	2013/1 4 £000	Variance £000
1	Dwelling Rent Income	(14,140)	(14,844)	(704)
2	Less Bad Debt Provision	30	300	270
3	Other Income	(904)	(1,003)	(99)
4	Interest Income	(8)	(12)	(4)
5	Total Income	(15,022)	(15,559)	(537)
6	Management and Other Costs	3,489	3,632	143
7	Repairs and Maintenance	2,266	2,252	(14)
8	Capital Charges	3,266	2,940	(326)
9	Depreciation	2,569	3,444	875
10	Revenue Contribution to Capital	1,756	2,791	1,035
11	Total Expenditure	13,346	15,059	1,713
12	In-year Operating Surplus	(1,676)	(500)	1,176
13	Net Transfer to / (from) Reserve	1,522	500	(1,022)
14	Transfer (to) / from HRA Reserve	(154)	0	154

8.8 A summary of the growth/savings are explained below:

Line 1 - An average weekly rent increase 2013/14 of 5.17% totalling £704,000 is proposed within this report. The budget accounts for this increase and allows for voids, estimated Right to Buy sales, and any proposed demolitions.

Line 2 – An increase of £270,000 in bad debt provision is included for 2013/14. This takes account of the estimated impact of Welfare Benefit Reform. Modelling has been undertaken, including under-occupied homes, capped households and Universal Credit changes, to calculate the budget requirement.

Line 3 – Includes an increase of 5% in service charges, and a 5.17% increase in garage rents in line with dwelling rents.

Line 4 – Shows an increase of £4,000 on interest received.

Line 6 – £75,000 has been included within the budget to enable development and implementation of a Financial Inclusion Project. The project will aim to mitigate the impact of Welfare Benefit Reforms on both the Council and tenants with the aim of investment to save. A similar figure is proposed within the budget for Mid Suffolk.

Line 7 – A saving of £14,000 in reduced repairs and maintenance budgets.

Line 8 – Interest payments have reduced. The 2013/14 budget is based on actual costs not estimated interest rates as per the previous year's budget.

Line 9 – Depreciation budgets have increased. The 2013/14 budget is based on actual depreciation projections within the Self Financing Determination, not Major Repairs Allowance calculations which were used as an approximation to depreciation within the previous HRA Subsidy System.

Line 10 – Revenue contribution to support the capital programme financing has been increased.

The Capital Programme 2013 -2017

8.9 The proposed Capital Programme 2012 – 2017 can be seen in **Appendix (a)**.

8.10 Babergh's housing register has 1725 applicants. Each year there are in the region of 250 vacancies. There is a requirement for additional affordable homes in our district to meet this need. The financial climate is creating a new group of people who are finding it increasingly difficult to secure housing and seeing an increase in the number of privately renting households.

8.11 A new 'build/acquisitions pot' has been created from existing capital programme levels and anticipated additional Right to Buy receipts. The planned improvement programme has been realigned through 2013/17 and a higher level of revenue contribution to capital has been made than projected within the HRA Business Plan. This enables a refocusing of resources to contribute to provision of additional homes within the district.

8.12 Self financing arrangements included 5 predicted Right to Buy sales per year within debt calculations. Previously the Council retained 25% of the receipts for the predicted sales and this was attributed to the General Fund. The Government's scheme to reinvigorate the Right to Buy through increased discounts has led to a rise in the number of sales expected.

- 8.13 The Government recognises that an increase in the number of Right to Buy sales, that is those sales above the number included in the self financing debt calculation, will have an impact on HRA Business Plans, and has introduced measures to enable councils to retain a greater proportion of the receipts. In a report to Strategy Committee in June 2012, Members resolved to enter into a Local Agreement with the Department of Communities and Local Government to retain and reinvest capital receipts for additional Right to Buy sales, in new affordable housing. Match funding of 70% must be found to enable use of these additional receipts.

It is proposed that Right to Buy capital receipts are split between the HRA and General Fund as follows:

- Debt element: 100% to the HRA to off-set the debt it has taken on.
 - 1-4-1 funding: 100% HRA as it is restricted to procuring affordable housing. (Additional sales not predicted in the Business Plan)
 - Balance 50:50 between the HRA and the General Fund (Predicted sales in the Business Plan)
- 8.14 The capital programme includes an estimate of the funding likely from these additional sales which can be used towards re-provision of housing.
- 8.15 No borrowing is required to support delivery of the capital programme in 2013/14 and £500k of equal instalment borrowing will be repaid. The borrowing level at 31 March 2014 will be £88.8m.
- 8.16 Based on current projections for income and expenditure, borrowing will not be required to deliver the proposed Capital Programme over the four year period to 2017. Borrowing headroom will increase to £10.5m at 31 March 2017.

Rents and Charges 2013/14

- 8.17 Tenants must be given legal notice of changes to dwelling rents at least four weeks in advance of the changes. There is no legal requirement to provide four weeks notice with regard to other charges, but it is good practice to give tenants as much notice as possible.

Dwelling rents

- 8.18 Using the Governments rent restructuring formula there are three separate drivers for rent increases: the Retail Price Index at September 2012, a 0.5% top up and the effect of phasing the move between Babergh's actual rents and convergence to target rent.

In summary the calculation is: last year's rent x RPI + 0.5% + (difference to target rent/convergence) capped at £2.00 maximum.

- 8.19 The Government's calculation of the debt settlement figure under self financing arrangements was based on projected rental income streams over a thirty year period which used the calculation above. The cost of servicing total debt, together with likely rental income lost by not fully converging individual rents by 2015/16 means that any decision not to realise rents to the level anticipated by the Government calculation is likely to have a detrimental impact on the ability of the Council to deliver balanced HRA budgets, and may lead to failure to deliver core service requirements and failure to maximise key business opportunities.

- 8.20 The rent convergence model is no longer mandatory but housing benefit limit rent still applies. Any increase above this limit is not taken into account in the housing benefit subsidy calculation and the difference has to be met by the HRA. Therefore the rents for 2013/14 will be kept below the limit rent within the final self financing determination.
- 8.21 As with previous years the Council is still aiming to align its rents with national formula rent, adjusted for local factors including property valuation and salaries.
- 8.22 Based on the information above the average rent for Babergh is proposed to be £90.12 a week for 2013/14, an average rent increase of 5.17% from the previous year (£85.68).
- 8.23 In January 2012, Strategy Committee recommended an average rent increase of 6%, which was below Government formula convergence levels for 2012/13. The proposed increase for 2013/14 of 5.17% will address some of the shortfall from a lower than convergence increase in 2012/13. The impact of another lower than convergence rent increase has been modelled. Restricting the rent increase to 4% would result in a £1.5m reduction in income to the HRA over the next 5 years. This is income that could otherwise be used to develop new housing or meet other Strategic Priorities, helping to boost the local economy, house people in need and attract New Homes Bonus.

Service Charges

- 8.24 There will be no change to the Supporting People (SP) grant for 2013/14. The Council receives a block grant of £75,800. This is based on a 'snapshot' of the number of tenants in receipt of housing benefit on a given date. SP grant is awarded until 2014. Thereafter SP grant levels will be reviewed, with a view to moving towards a self funding model.
- 8.25 75.2% of Babergh's sheltered housing tenants receive part or full housing benefit to assist with paying their rent. Service charges, excluding utility costs, are recoverable through housing benefit payment.
- 8.26 Service charges have been reviewed which has resulted in an increase of 5%. This is in line with Mid Suffolk's increase of 5.48%.

Heating/utilities

- 8.27 Charges for heating and utilities are based on estimated forecasts. Budgets which result in additional or reduced income collection compared to actual costs are offset against the next year.
- 8.28 Therefore an overall decrease of 2.88% is required 2013/14.

Garages

- 8.29 It is proposed that garage rents are increased in line with dwelling rents, meaning an increase of 5.17%.

Business Plan and HRA Strategic Priorities

- 8.30 The future HRA income streams have been projected through a 30 year business plan. The Business Plan allows the council to examine the impact of self financing changes, to model the impact of varying assumptions on investment levels, rental income and other factors, and to test the sensitivity of the model to factors such as inflation, interest rates, and Right to Buy disposals.
- 8.31 An initial draft HRA Business Plan was developed in 2011, with assistance from CIH Consulting, in response to the Governments debt settlement calculation. The HRA Business Plan has been reviewed. Draft budget figures for 2013/14 have been entered. The reviewed Business Plan is attached at **Appendix (b)**.
- 8.32 The revised Business Plan indicates that based on the proposed Draft HRA Budget (including Capital Programme) and rent and service charge increases, contained within this report, the HRA could generate surplus revenues of £16.3m (shown in Strategic Priorities Reserve) in years 2014/15 – 2019/20.
- 8.33 Self financing has presented the council with a unique opportunity to: address historic investment shortfalls; to respond better to tenants' expectations and aspirations for their homes and potentially deliver much needed additional council homes.
- 8.34 A set of HRA Strategic Priorities which will meet tenant's aspirations and the Councils wider Strategic Priorities, and an HRA Financing Strategy, need to be developed to ensure that use of HRA funding is focused appropriately.
- 8.35 A reserve fund has been created within the Business Plan (shown in Strategic Priorities Reserve) which can be re-invested to meet new HRA Strategic Priorities.
- 8.36 Management Board, the Capital Asset Strategy Group, the Joint Housing Board, the Tenants' Forums, PLG and Portfolio Holders Groups will be invited to contribute to establishing the HRA Strategic Priorities and Funding Strategy.
- 8.37 To mitigate against significant financial risk prudent reserve levels of £1m will be maintained.

9. Appendices

Title	Location
(a) The HRA Capital Programme 2013 - 2017	Attached
(b) Revised HRA Business Plan (Revenue) 2013/14 – 2019/20	Attached

Authorship:

Louise Rawsthorne
Corporate Manager – HRA

01449 724772/ 01473 826604
Louise.rawsthorne@midsuffolk.gov.uk

Caroline Pearce
Corporate Accountant

Tel no 01473 825840
caroline.pearce@babergh.gov.uk

Julian Thurkettle
Senior Corporate Finance Officer

Tel no 01473 825814
Julian.thurkettle@babergh.gov.uk

Appendix (a) Babergh District Council Housing Revenue Account Capital Programme

	Actual	Approved	Proposed	Proposed	Proposed	Proposed
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Budget	Budget	Budget	Budget	Budget
	£'000	£'000	£'000	£'000	£'000	£'000

Housing Maintenance						
Planned maintenance	2,304	3,688	4,031	3,394	3,517	3,614
Other programmes	287	740	1,126	907	951	974
New build/acquisition	-	-	708	500	500	500
Property acquisition	-	95	-	-	-	-
Environmental Improvements	-	95	200	205	160	166
Horticulture and play equipment	26	84	86	89	91	93
Disabled Facilities work	373	415	414	324	335	346
Total HRA Capital Spend	2,990	5,117	6,565	5,419	5,554	5,693

HRA Financing						
Major Repairs Allowance / Depreciation	2,541	2,468	3,444	3,433	3,509	3,586
Grants / External Contributions	6	-	-	-	-	-
Capital Receipts	-	211	330	225	216	227
Borrowing - unsupported	-	-	-	-	-	-
Revenue Contributions (balance)	443	2,438	2,791	1,761	1,829	1,880
Total HRA Capital Spend	2,990	5,117	6,565	5,419	5,554	5,693

Capital Financing Requirement (CFR)		89,348	88,848	88,348	87,848	87,348
CFR Debt cap		97,849	97,849	97,849	97,849	97,849
Under/ (over) debt cap	n/a	8,501	9,001	9,501	10,001	10,501

Opening CFR	6,201	89,848	89,348	88,848	88,348	87,848
New Borrowing	83,647	-	-	-	-	-
Borrowing Repaid	-	- 500	- 500	- 500	- 500	- 500
VRP (Voluntary Revenue Provision)	-	-	-	-	-	-
Closing CFR	89,848	89,348	88,848	88,348	87,848	87,348

