

Report To: Cabinet

Date of Meeting: 19 February 2013

Lead Member / Officer: Councilor Hugh Irving

Report Author: Peter McHugh

Title: Housing Revenue Account
Revenue Budgets and Capital Budgets 2013/14

1. What is the report about?

To seek approval from Cabinet for the Housing Revenue Account Revenue and Capital Budgets for 2013/14.

2. What is the reason for making this report?

It is a statutory requirement to set budgets and rent levels before the start of the new financial year.

The budget for 2013/14 must be set to conform with the Housing Stock Business Plan (HSBP) established when the Council decided to retain its housing stock and fund improvements to reach WHQS by the end of 2013 and maintain it until 2041.

3. What are the Recommendations?

That the Housing Revenue Account Budget for 2013/14 (Appendix 1) and the Housing Stock Business Plan (Appendix 2) be adopted.

That rents for Council dwellings be increased in accordance with the Rent Setting Policy guidance from Welsh Government (average 5.18% per week) with effect from Monday 1st April 2013.

That rents for Council garages and Heating Charges be increased in line with Guideline Rents (average of 5.18% per week) with effect from Monday 1st April 2013.

4. Report details.

The latest forecast out-turn for is detailed in Appendix 1, in line with the monthly monitoring report. Balances, at year end, are forecast to be £857,000 an improvement of £17k when compared to the December 2012 forecast out-turn.

The proposed budget for 2013/14 is also detailed in Appendix 1. The budget has been calculated on the following bases:

- HRA Subsidy Determinations;
- Average rent increases of 5.18%;
- Management and Repairs and Maintenance expenditure in line with the HSBP base cost assumption of 2.5% increase;

- No Right to Buy (RTB) Sales have been made in 2012/13 and 1 per year is forecast for subsequent years.

The Final HRA Subsidy Determinations are expected from Welsh Government in February 2013. The Determination effectively decides the amount of the negative subsidy paid to Welsh Government and on to the Treasury each year. It assumes that "Guideline Rents" are charged, that "Management and Maintenance" costs are fixed, and older supported capital repayments are made. The "notional" HRA account produced from this calculation is in surplus and this amount is paid to Welsh Government and on to the Treasury as negative subsidy. There is a national review of the Housing Revenue Account Subsidy System under way but it is unlikely that there will be significant change to the Subsidy system until 2014 when there is a prospect of a Self Financing Settlement being introduced (as occurred in England in April 2012) which would involve a one off debt settlement which would be serviced by authorities being enabled to retain rent and service charge surpluses.

Indications from Welsh Government suggest that it will be suspending the rent convergence policy (of bringing Local Authority and RSLs rents up to broadly the same level within a locality) for another year and reducing the Guideline Rent to 1% above the September 2012 inflation figure. This has resulted in the following recommendations from Welsh Government:

- Management and Maintenance allowances to be uplifted by 6.6% to £2,610 compared to £2,267 per dwelling in 2012/13);
- Guideline Rent increases to £69.70 per dwelling per week which equates to a weekly increase of £3.62 or 5.48% increase. This is due to rents in Denbighshire being comparatively low and the policy of Welsh Government is for rental levels between Local Authorities and RSLs to converge. This will mean local authority rent levels rise at a larger rate than RSL rents to facilitate the convergence;
- Benchmark Rents (RSL) will increase to £75.21 from £72.95 an increase of £2.26 equating to 3.10% uplift.

It is estimated that the HRA Subsidy payment to Welsh Government for 2013/14 will total £3,243,000 which equates to an increase of 5.3% compared with 2012/13.

Housing Services are acutely aware of the importance of trying to minimise rent increases whilst providing support to tenants and maintaining the stock to a high standard.

The service has undertaken considerable work on scoping the impact of welfare reform and developing strategies to manage and mitigate the risks associated with it. All affected households have been identified and 65% of all households have had a home visit from their estates officer, explaining the benefit changes (including general information on Universal Credit) and how it will affect their HB payments. It is anticipated that all the visits will be completed by the third week in February 2013. A total of 389 homes have been identified as affected by the under occupancy charge (bedroom tax) which could result in a worst case scenario negative impact of £233k on the income available to the Service. Bad debt provision has been increased within the business plan for 2012/13 and 2013/14 by a cumulative sum of £150k to take account of the implications of welfare reform.

All affected tenants shall be supported with housing options advice and the service

has been restructured to create a bespoke income management function to develop a more pro-active approach and interventionist approach to manage and mitigate the risks of increased arrears as a result of wider welfare reforms. It is worth noting that one third of the Housing Stock is designated as sheltered accommodation which is presently exempt from the bedroom tax as is any retired persons residing in general needs accommodation and 66% of all tenants are in receipt of some form of Housing Benefit with half of all tenants in receipt of full HB.

It is recommended that all tenants pay the Guideline Rent uplift for 2013/14 which would result in the following charges being applied to the stock:

	Actual Rent 2012/13	Guideline/Actual Rent 2013/14
Bed-sit	£56.10	£59.01
1 Bedroom	£59.02	£62.08
2 Bedrooms	£63.81	£67.12
3 Bedrooms	£73.62	£77.43
4 Bedrooms	£80.95	£85.14

Housing Stock Business Plan (HSBP)

As part of the budget process it is necessary to monitor the Housing Stock Business Plan. A Due Diligence exercise is undertaken on an annual basis to review the assumptions used and to validate the robustness of the financial model. In addition the review undertakes a sensitivity analysis and produces a risk register.

The latest review was undertaken in January 2012 which confirmed that many of the original assumptions (2005/06) remain unaltered and concluded that the Business Plan is both viable and robust. It states that the assumptions made are prudent and the plan is viable over the next 30 years.

The 2012 stock condition survey has identified a need for significant additional expenditure over the next 30 years ranging from £50million to £33 million. A considerable amount of work has been undertaken to smooth the investment peaks and troughs over the lifetime of the business plan and to adopt a prudent and pragmatic approach to component lifecycles, priority works and cost assumptions.

The bottom line is that the plan is still viable over the 30 year period with balances rising from £43 million from the original Savills survey to £52 million when taking account the stock investment requirements through the Rands survey.

The Capital Programme for 2013/14 will consist of completing the framework contracts so that all properties will meet WHQS. The total cost of capital works for 2013/14 will be in line with the Housing Stock Business Plan at £8, 181,796.

Garages

Rents for garages shall increase in line with the business plan resulting in 5.18%

uplift for 2013/14. A review of garages to ascertain how they are presently being utilized, to compare and contrast investment costs against income derived and to consider the medium to longer term options for garage sites was commenced in 2012 but has since been placed on hold as a result of organizational restructuring. The review is expected to recommence in the new financial year.

Heating Charges

Four estates have communal heating systems with central boilers without individual meters. All other tenants pay their own heating costs direct to the supplier.

Energy supplier costs have been increasing and traditionally Denbighshire has not passed on the full increase of energy costs (in contrast to other Councils who do). It is recommended that this principle is adhered to for a further year with a proposed increase of 5.18% being recommended which shall raise heating costs between for those 33p per week to 59p per week for those subject to the heating charge. Average heating costs for those subject to the heating charge are £9.59 per week.

A project team is presently exploring the potential to develop a fuel brokerage scheme to procure savings on energy costs which could be passed on to tenants and residents. Brokerage Schemes have been launched in Cornwall and Oldham and officers are presently exploring with those authorities the potential for those schemes to be extended to enable residents in Denbighshire to take advantage of them.

Contractor Appointments, Framework Agreement

P7/11/703 – Housing Refurbishment Contract 6. (Denbigh, Henllan, Trefnant)

Contract Sum: £2,841,243.00

Main Contractor; Adever Construction Ltd.

Contract start 16.04.2012.

Contract finish 27.09.2013.

Duration - 76 weeks

Number of properties;219.

P7/11/704 – Housing Refurbishment Contract 7. (Ruthin, Llandyrnog, Llanrhaedr, Gellifor, Rhewl, Llanynys, Llanfair, Graigfechan, Cyffylliog, Clocaenog, Bontuchel)

Contract Sum: £2,437,975.10.

Main Contractor; Adever Construction Ltd.

Contract start 20.08.2012

Contract finish 15.11.2013.

Duration - 65 weeks

Number of properties;192

P7/11/705 – Housing Refurbishment Contract 8. (Corwen, Carrog, Cynwyd, Gwyddelwern, Glyndyfyrdwy, Llandrillo, Llantisilio, Llangollen,)

Contract Sum: £2,777,649.40.

Main Contractor; Bramall Construction Ltd.

Contract start 11.02.2013.

Contract finish 21.04.2014

Duration - 65 weeks (Contractors have confirmed they will complete the programme by 20 December 2013)

5. How does the decision contribute to the Corporate Priorities?

The provision of good quality housing is a Corporate Priority and the investment in housing stock to attain and sustain the Welsh Housing Quality standard provides significant opportunities for employing local labor, utilizing local supply chains and supporting third sector organizations.

6. What will it cost and how will it affect other services?

The Housing Revenue Account is generally ring fenced and costs of implementation are covered by the increased income through rents and charges.

7. What consultations have been carried out?

The Denbighshire Tenants' and Residents' Federation will be consulted on the capital and revenue proposals, particularly on the options for the capital programme. In the past they have expressed concern at the level of rent increases but accepted the need for increased rents to pay for improvements.

8. Chief Finance Officer Statement

The recent review of the Housing Stock Business Plan, incorporating the latest WG assumptions in relation to the housing subsidy, shows that it remains robust and financially viable. The stock condition survey data means that we can plan with certainty for the investment needs of the stock in the knowledge that there are sufficient resources to meet the investment requirements.

9. What risks are there and is there anything we can do to reduce them?

Failure to follow the Housing Stock Business Plan and to set budgets could lead to financial problems and potential intervention by Welsh Government. Housing Services will work closely with welfare rights and the corporate welfare reform group to manage, mitigate and minimize the impact of welfare reform upon tenants.

10. Power to make the Decision

The Council has the power to make this decision and does not require any external approvals in order to do so.

APPENDIX ONE

Housing Revenue Account ~ 2012/2013 Budget				
2011/2012		2012/2013		2013/2014
Final		Budget	Forecast	Proposed
Outturn	Period 10 - January 2013		Out-turn	Budget
£	EXPENDITURE	£	£	£
2,002,530	Supervision & Management - General	2,076,887	2,135,668	2,087,263
282,332	Supervision & Management - Communal	280,885	281,520	287,907
117,495	Welfare Services	307,266	316,583	139,454
2,997,918	Repairs and Maintenance	2,970,020	3,068,896	2,918,021
5,400,275	Total Housing Management	5,635,058	5,802,668	5,432,645
2,590,701	Item 8 Capital Charges	2,648,339	2,658,773	3,075,457
1,340,936	Capital Funded from Revenue	330,606	330,606	890,201
3,084,830	Subsidy	3,147,640	3,080,742	3,242,626
28,247	Provision for Bad Debts	79,375	79,375	131,248
12,444,989	Total Expenditure	11,841,018	11,952,164	12,772,177
	INCOME			
11,146,799	Rents (net of voids)	11,749,986	11,776,555	12,499,399
154,895	Garages	157,174	156,148	162,678
5,738	Interest on Balances & Other Income	4,625	4,625	8,015
11,307,432	Total Income	11,911,785	11,937,328	12,670,092
	Surplus / Deficit (-) for the Year:			
203,379	General Balances	401,373	315,771	788,116
2,008,964	Balance as at start of year ~ General	871,407	871,407	856,572
-1,340,936	Earmarked Balances	-330,606	-330,606	-890,201
871,407	Balance as at end of year ~ General	942,174	856,572	754,487

APPENDIX TWO

SUMMARY	2	3	4	5	6
	2012.13	2013.14	2014.15	2015.16	2016.17
CAPITAL EXPENDITURE					
Planned Improvements	£4,596,255	£8,181,796	£5,053,057	£5,204,649	£5,360,789
IT Investment		£1,000,000			
Slippage (Previous Years)	£2,599,424				
	£7,195,679	£9,181,796	£5,053,057	£5,204,649	£5,360,789
CAPITAL FUNDING					
Major Repairs Allowance	£2,400,000	£2,400,000	£2,400,000	£2,400,000	£2,400,000
Usable Capital Receipts	£0	£18,480	£19,269	£20,087	£20,932
CERA	£330,606	£890,201	£422,981	£417,141	£1,052,149
Efficiency Savings - IT investment		£150,000	£150,000	£150,000	£150,000
Prudential Borrowing	£4,465,073	£5,723,115	£2,060,807	£2,217,421	£1,737,707
	£7,195,679	£9,181,796	£5,053,057	£5,204,649	£5,360,789
REVENUE EXPENDITURE					
Management ~ General	£2,135,668	£2,087,263	£2,175,319	£2,229,702	£2,285,445
Special & Welfare Costs	£598,103	£427,361	£438,045	£448,997	£460,222
Repairs & Maintenance	£3,068,895	£2,918,021	£3,067,846	£3,144,542	£3,223,156
HRA Subsidy Payment	£3,080,742	£3,242,626	£3,323,692	£3,406,784	£3,491,954
Rent Rebate Subsidy Limitation	£0	£0	£0	£0	£0
CERA	£330,606	£890,201	£422,981	£417,141	£1,052,149
Provision for Bad Debts	£79,375	£131,248	£132,110	£133,738	£135,448
Capital Financing Costs	£2,658,773	£3,075,457	£3,472,645	£3,585,180	£3,691,569
	£11,952,162	£12,772,177	£13,032,638	£13,366,085	£14,339,942
REVENUE INCOME					
Rental Income	£11,776,555	£12,499,399	£12,844,139	£13,495,261	£14,179,389
Garage Income	£156,148	£162,678	£167,559	£172,586	£177,763
Interest on Balances	£4,625	£8,015	£11,160	£17,912	£21,460
	£11,937,328	£12,670,092	£13,022,858	£13,685,758	£14,378,612
BALANCES					
Balance brought forward	£871,406	£856,572	£754,488	£744,707	£1,064,380
Surplus / Deficit (-) For Year	-£14,834	-£102,084	-£9,781	£319,673	£38,670
Balance carried forward	£856,572	£754,488	£744,707	£1,064,380	£1,103,051