

ROTHERHAM BOROUGH COUNCIL – REPORT TO CABINET MEMBER

1.	Meeting:	Cabinet Member for Safe and Attractive Neighbourhoods
2.	Date:	Monday 18 March 2013
3.	Title:	Proposed HRA Revenue Budget 2013/14
4.	Directorate:	Neighbourhoods and Adult Services

5.0 Summary

This report details the proposed Housing Revenue Account (HRA) Revenue Budget for 2013/14.

The report demonstrates that the cost of delivering services in 2013/14 can be met from existing resources. However, a contribution from the Working Balance will be required in year to underpin service delivery and capital investment requirements in 2013/14 as identified within the 30 year Business Plan.

6.0 Recommendations

Cabinet Member is asked to note and approve the draft 2013/14 HRA Revenue Budget.

7.0 Proposals and Details

7.1 Background

- 7.1.1** April 2012 saw the implementation of the Government's HRA Self-Financing Initiative, which was introduced as part of the Localism Act.
- 7.1.2** As part of this Initiative, authorities were allocated a one-off debt settlement charge, which for Rotherham was £15.188m and in addition authorities are now required to meet all the costs of delivering services, funding debt and meeting the capital investment needs of the stock from it's own resources.
- 7.1.3** In order to facilitate this approach, authorities were required to draw up a 30 Year Business Plan to demonstrate that they are able to meet all forecast expenditure items, from the forecast income receivable.
- 7.1.4** The HRA Revenue Budget 2013/14 presented within this report, is effectively Year 2 of the 30 Year Business Plan.
- 7.1.5** Appendix A of this report identifies the budgeted cost of delivering services is £73.090m which can be met from budgeted income of £78.904m. However, a contribution of £8.437m will be made towards the cost of investment in 2013/14. This will result in an in-year transfer from the Working Balance of £2.599m to contribute to capital investment requirements. This position is in line with the Business Plan requirements.

The remainder of this report will present the details and assumptions made in compiling the 2013/14 HRA budget.

7.2 Details

- 7.2.1** Appendix A of this report presents the 2013/14 detailed Draft Operating Statement which is effectively "The Budget".

The table below presents an overall summary position of Income and expenditure as follows:-

	Proposed Budget 2013/14 £
Expenditure	73,090,434
Income	-78,903,700
Net Cost of Service (Surplus)	<u>- 5,813,266</u>
Interest Received	- 25,000
Net Operating Expenditure (Surplus)	<u>- 5,838,266</u>
Revenue Contribution to Capital Outlay	8,437,000
Transfer from Reserves	-2,598,734

7.2.2 It can be seen that budgeted income of £78.904m is anticipated to be collected in 2013/14 and that this is offset by £73.090m of budgeted expenditure which represents the cost of delivering the service. As budgeted income is greater than the cost of delivering the service, there is an overall net income of £5.813m to the service.

Once interest receivable is taken into account, and a contribution of £8.437m has been made towards the capital investment plans, (approved by Cabinet 20 February 2013, Minute C156), it is forecast that the HRA will be require a transfer from Reserves of £2.599m to meet planned investment requirements in 2013/14 as reported in the HRA Budget Report for 2012/13.

The following paragraphs present a detailed analysis of the individual budget lines as shown within Appendix A.

Expenditure

The overall gross cost of service is £73.090m which can be analysed as follows:-

- **Contributions to Housing Repairs £17.966m.**

This budget head is used to deliver the revenue repair and maintenance service to properties and includes items such as responsive repairs, cyclical maintenance, minor voids and planned maintenance works. The majority of this work is carried out through the external contract.

The budget has been set in line with the Business Plan assumptions and Inflation at a rate of 3.2% has been applied to reflect the anticipated uplift on the Repair and Maintenance Contract.

- **Supervision and Management £20.065m**

This budget head reflects the cost of delivering front line services to tenants together with associated support costs. The budget has been set on the basis of “standstill”, that is, as services are currently being delivered, and without growth.

A realistic vacancy factor of 2% has been assumed with the expectation that staff turnover rates are likely to be lower than in previous years.

The position will be monitored on an ongoing basis and any changes will be reported through budget monitoring in 2013/14.

Non pay costs, with the exception of utilities, have been set in line with the 2013/14 budget or forecast outturn position. An inflationary increase has not been included in non pay budgets with the exception of utilities which include uplifts inline with RMBC budget setting strategy.

- **Rent and Rates £174k**

This budget reflects the anticipated costs of rent and council tax associated with empty properties. This shows a significant increase over the 2012/13 budget due to proposed changes to the RMBC charging policy on void properties.

- **Bad Debt Provision £743k**

This budget reflects the potential cost of income which is unlikely to be collected. The budget has been increased by £125k to reflect the current economic climate and the potential impact of Welfare reform on the level of bad debts.

- **Major Repairs Allowance (MRA) £19.289m**

MRA was previously paid through the subsidy system and the sum allocated was intended to be used to finance works of a capital nature which would keep properties in a good state of repair.

Government however, still stipulates the level of MRA that authorities are required to provide, even though the cost of works have to be met from the HRA's own resources.

The £19.289m required in 2013/14 is the Self-Financing Settlement Base Value MRA uplifted by inflation (RPI) and adjusted based on the updated number of dwellings.

- **Capital Financing Costs £14.602m**

This budget reflects the cost of servicing all outstanding debts, based upon a consolidated rate of interest of 4.76%.

Capital Financing Costs are expected to be higher than in previous years reflecting the £15.188m additional debt allocated to the Council by Government as part of implementing the HRA Self Financing Initiative referred to earlier in this report.

If interest rates rise in 2013/14 a budget pressure will be generated as debt charges will increase.

- **Debt Management Costs £222k**

This budget reflects the costs associated with the management of the HRA's outstanding debt portfolio of £307m including the daily cash flow position.

Income

The overall gross income is anticipated to be £78.904m, which can be analysed as follows:-

- **Rental Income £74.245m**

This budget reflects income collected based upon the 2013/14 average rental increase of 6.19% as approved by Cabinet on 16th January 2013 (minute C130).

The budgeted level of income assumes an empty property level of 2% which will result in income not being collectable. If the void rate increases above the 2% then less income will be collected, which will create a budget pressure.

- **Non Dwelling Rents £792k**

The majority of this budget represents rental income collected for garage rents which have increased by 2.6% in line with inflation. It also includes other non-dwelling rent income such as ground rents, garage access and way leaves.

- **Charges for Services and Facilities £3.602m**

This budget reflects charges associated with the Council's district heating scheme, communal facilities charges as well as income received from the furnished accommodation service.

- **Other Income £214k**

An anticipated £214k is expected to be received through miscellaneous income, including administration charges and reimbursement of court costs.

- **Leaseholder Income £51k**

In line with the CIPFA Code of Practice on Local Authority Accounting, Leaseholder Income must be shown separately on the Operating Statement. This was included in Charges for Services and Facilities in previous years.

The difference between the Expenditure - Costs of delivering services and income generated is referred to as the Net Cost of Service which, as can be seen at Appendix A is £5.813m for 2013/14.

In addition to the analysis presented above two further transactions are included within the Operating Statement as follows:

- **Interest Received £25k**

This is an indicative sum to reflect interest receivable by the HRA for balances held, primarily the Working Balance. Interest payable is calculated using seven day money market rates.

- **Revenue Contribution to Capital Outlay (RCCO) £8.437m**

This budget reflects the planned charge to the HRA of £8.437m to fund capital expenditure through the Housing Investment Plan (HIP) alongside the planned MRA funded spend.

This principle is further established within the HRA Self-Financing Initiative whereby authorities have to meet the cost of capital investment from their own resources.

During 2013/14 the HRA will be investing approximately £24m to enhance and upgrade council housing.

This position is highlighted within the Capital Programme Report which was approved by Cabinet on 20th February 2013. That report identifies that the capital investment requirements for the next three years of the Business Plan have been "smoothed out" over a seven year period so as to be affordable.

In summary, once the cost of delivering services and making a revenue contribution to funding the capital programme have been offset against the income received, a transfer from reserves is required of £2.599m in order to set a balanced budget and contribute to capital investment outlined in the HRA 30 Year business Plan.

7.3 Impact on Working Balance

At the end of 2013/14 it is anticipated that the cumulative Working Balance will be as follows:-

	£,000's
Balance b/fwd 2012/13 (Jan 2013 Forecast)	12,291
Contribution in Yr 2013/14	-2,599
Balance c/fwd to 2014/15	<u>9,692</u>

Previous reports have identified that it is good accounting practice to establish a Working Balance in the region of £150 to £200 per property, which is effectively a provision for any **unforeseen** items of expenditure which may arise in the year. The Business Plan assumes a Working Balance in the region of £3m

Whilst the balance of £9.692m is significantly higher than the assumed £3m, it should be noted that in 2014/15 and 2015/16, it is known that significant contributions will be needed to meet the additional Capital Investment requirements.

7.4 Impact on 30 Year Business Plan

The Revenue Budget for 2013/14 as presented within this report is in line with Year 2 of the 30 Year Business Plan.

Previous reports have identified that resources within the earlier years of the 30 year Business Plan are particularly scarce. This is demonstrated in the presentation of the 2013/14 Revenue Budget set out in this report. Resulting from:

- An increase in capital financing charges resulting from the take on of new debt as part of the implementation of the new self financing initiative.
- Additional provision to meet the Government's MRA expectations.
- These additional sums have to be met from a contribution from both existing resources and reserves, resulting in a revenue contribution to the cost of capital investment of £8.437m in 2013/14.

As a consequence, and as further identified within this report, it has been necessary to "smooth out" the year on year capital investment requirements to meet funds available.

It is therefore essential that the assumptions made within the Business Plan are delivered in 2013/14 and subsequent years.

Following approval to the 2013/14 Revenue Budget, the Business Plan will be refreshed to reflect variances, and changes will be modelled across the remaining 30 years.

Budget monitoring of the 2013/14 Revenue and Capital Programmes will incorporate an assessment of the likely impact on the longer term position of the 30 Year Business Plan.

7.5 Key Risks/Pressure Points

The preceding paragraphs have identified the following risks:

- **Inflation**

The budget has been set with the following assumptions regarding inflation:

- **Non-pay spend**

Provision for non pay spend has been made without an inflationary allowance. This could result in actual costs being greater than budget provision which may lead to an overspend.

- **Utilities**

Provision has been made for an inflationary increase of between 3.5 and 12.1% on utility costs within the budget. If costs increase above this provision, a budget pressure will be generated.

- **Debt Charges**

Provision has been made within the budget for debt charges at 4.76%. If this rate increases, debt charges will rise which, if savings cannot be found elsewhere, will result in an overspend.

- **Empty Houses**

The repair and maintenance budget has been built around anticipated void property level of 1,500 revenue voids in year. If this increases in the year, it could result in increased costs and potential overspend on budget.

- **Rental Income**

The budgeted sum assumes a voids rate of 2%. If this increases the amount of rental income collected will fall.

In order to mitigate risks all budget heads are monitored on a monthly basis and a year-end forecast out-turn position is calculated each month based on income and expenditure to date. This facilitates the identification of potential issues and allows early intervention where required.

8.0. Policy and Performance Agenda Implications

The HRA supports the new Corporate Plan Priorities and is central to the long term strategy of

- Making sure no community is left behind
- Helping to create saver communities
- Improving the environment

9.0 Background Papers and Consultation

- Housing Rent Increase 2013/14.
- Baseline Self Financing Determination for 2012/13 (DCLG 21 November 2011).

Consultation with tenants has identified that repairs and maintenance are key issues to service users.

Director of Housing and Neighbourhoods and Director of Financial Services and individual budget holders have been consulted during the preparation of this report.

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