

Housing Revenue Account (HRA)

– Revenue and Capital Investment Budgets 2013/14

Cabinet

Date: 6th February 2013

Author: Cabinet Member for One Swindon, Localities and Housing
Board Director, Service Delivery

Wards: All

Locality Affected: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 To present the proposed Housing Revenue Account (HRA) Revenue and Capital Investment Budgets for 2013/14, including proposals for rents, service charges and support charges and the debt for 2013/14.
- 1.2 This report recommends a budget that has a priority of investment.

2. Recommendations

Cabinet is asked to recommend to Council that:

- 2.1 Rents for 2013/14 are increased in line with convergence targets of RPI plus 0.5% plus maximum of £2.00, which would increase average rents for Housing Revenue Account (HRA) dwellings to £77.82 per week (52 week basis), an increase of 4.8%. This will be an average increase of £3.59 per week.
- 2.2 Housing related support charges for 2013/14 and service charges for 2013/14 be approved as outlined in Appendix 2.
- 2.3 Leaseholder service charges for 2013/14 be approved as shown in Appendix 3.
- 2.4 The Housing Revenue Account (HRA) proposed budget for 2013/14, shown in Appendix 4, be approved and that the HRA Capital Investment Budget and Funding be approved as shown in Appendix 5.
- 2.5 The provision for debt repayment in 2013/14 of £5m as detailed at Appendix 1 be approved.
- 2.6 The Council include within its Constitution's Scheme of Delegations an authority enabling the Board Director, Service Delivery in consultation with Board Director, Resources, Head of Housing Services and the Cabinet Member with portfolio responsibility for Housing to use the Regeneration and Acquisition fund, as proposed in this report of up to £1m, to purchase 1 and 2 Bedroom accommodation to enable these properties to be included with the Council's housing stock.

Further information on the subject of this report can be obtained from Paul Smith on Direct Dial No.463976, or Email psmith2@swindon.gov.uk.

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- 2.7 Rents charged on General Fund properties be on the same basis as HRA properties, which would show an average increase of 4.4%, and the service charges as shown in Appendix 6 be approved.
- 2.8 Rents charged for plots at the Hay Lane Residential Gypsy Site are increased by £2.00 per week to £47.00 per week (52 week basis) and the rents for work pens (small lock-ups), as shown in Appendix 6 be approved.
- 2.9 The homelessness contribution outlined in Appendix 6 be approved.
- 2.10 The budgeted 12/13 debt repayment of £7,977,300 is reduced/removed and the additional funding be transferred to HRA reserves at year end, subsequently to be allocated towards increasing the capital programme for 13/14 as detailed at paragraph 3.45

3. Detail

- 3.1 The Housing Revenue Account (HRA) is a statutory account set up in accordance with the Local Government and Housing Act 1989. The account is ring fenced and cannot be subsidised by the General Fund or vice versa.
- 3.2 The HRA contains all expenditure relating to the Council's landlord function of over 10,500 dwellings, supported housing schemes, sheltered schemes, commercial premises and garages. Income is generated through rents, charges and interest received on balances. There are currently 13,000 tenants. There is a waiting list of 14,000. Swindon has a disproportionately large number of sheltered housing schemes and non-traditional houses which make up 42% of the total stock. At the time of preparing the report 59% of our tenants are on some form of Housing Benefit. In the vast majority of these cases, whether they are in receipt of partial or full Housing Benefit the rent increase proposed will be covered by an increase in benefit received for these tenants
- 3.3 Council rents are approximately 50% of market rents as shown in the table below:

Swindon	1 bed	2 bed	3 bed	Period
	£ week	£ week	£ week	
Housing Association Rent	67.90	80.40	92.80	Jan 11 - Dec 11
Assumed Increases for 2012 - 2013 (5.6%)	71.70	84.90	98.00	12-13
Assumed Increases for 2013 - 2014 (2.6%)	73.57	87.11	100.54	13-14
Private - Median	107.00	132.00	161.00	Nov 11 - Oct 12
Private - Upper Quartile	114.00	137.00	178.00	Nov 11 - Oct 12

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Affordable – 80% of Private	85.60	105.60	128.80	80% of median
HRA Current Average	66.34	74.45	80.74	Apr 12 - Mar 13
HRA Proposed Average	69.87	77.79	84.59	Apr 13 - Mar 14

- 3.4 The rent figures in the above table are sourced from Hometrack (with reference to Regulatory Statistical Survey Return for the Housing Association data). The assumed percentage uplifts applied to Housing Association Rents equate to RPI increase applied to HRA rents for the same years in order to arrive at an estimate for 13/14.
- 3.5 In December 2012 tenants had the opportunity to vote on whether they wished to keep the Council as their landlord. This arose out of the change in Government policy from the “subsidy” system to the “self financing” system. The significance of this vote was that by remaining under Council control, Swindon Borough Council was allocated a debt of £138.6million to be paid from the Housing Revenue Account. This debt has been paid to the Government and therefore money used for debt repayment is not available for investment in the stock. It is important to emphasise that the debt repayment is solely from the Housing Revenue Account and therefore has no impact on Council Tax.
- 3.6 Self financing brings challenges and opportunities. While the Council now gets to keep all of the rents that it receives, it needs to invest in the stock and pay off the debt. The Council therefore needs to balance keeping rents affordable, investing in the stock and paying off the debt. This has to be done taking into account the needs of both current and future tenants.

Housing Revenue Account (HRA) Rents and Charges

- 3.7 Swindon’s Housing Revenue Account (HRA) receives the majority of its income for the services it provides to tenants. Tenants can pay up to 3 elements for their homes:
- 3.7.1 Rent - a charge for the occupation of a dwelling. Rents pay for the management and maintenance of the properties.
- 3.7.2 Service charge - additional services which may not be provided to every tenant, or which may be connected with communal facilities e.g. a caretaker service.
- 3.7.3 Support charge - additional services to help tenants maintain their tenancies i.e. the warden service in sheltered accommodation and the Homeline alarm system.

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Dwelling Rents and Capital Investment / Debt Repayment

- 3.8 The HRA Self Financing regime came into force on the 1st April 2012; this brought with it a number of freedoms for local authorities with council housing. The biggest of these was the requirement to enable the HRA to retain all revenue generated locally instead of having to pay a levy (subsidy of £10.4m in 2011/12) to the Government. This freedom however came at a cost as the HRA was required to take on a loan of £138.6m to finance the settlement payment due to the Government, in addition to the £11.9m of debt that already existed.
- 3.9 The debt settlement figure was based on a 30 year model that projected rents and other costs, discounted to present day values. The debt calculation assumed that HRA rents would continue to follow the rent convergence guidelines that have been in force since 2000 and the debt figure was therefore higher than it would have been had the assumption around rent increases been lower.
- 3.10 The rent convergence rules work as follows:
- 3.10.1 Every property has a target rent set based on a national formula that takes into account the value of the property as at 1st January 1999 and the number of bedrooms. This rent is increased by RPI +0.5% each year.
- 3.10.2 The actual rent being charged for the property is then compared with the target and the gap between the two determined. The date for convergence was published by Government each year and is currently set at 2015/16 i.e. 3 year's time.
- 3.10.3 The convergence rules expected the actual rent to increase by RPI +0.5% plus a share of the gap (up to a maximum of £2 per week). Thus if the gap between target and actual was £4.50 the rent would increase by RPI +0.5% + £1.50 (£4.50/3 years). However if the gap was £7.00 then the cap would come into play and the increase would be RPI + 0.5% + £2.00 (the maximum rather than £2.33)
- 3.11 The expectation within the self-financing settlement was that Swindon would continue to apply the convergence guidelines to its rent. Applying this to Swindon rents would result in a 4.8% average increase for tenants from £74.23 per week to £77.82 per week. This would increase the rental income by £2.0m to £42.4m. It is still open to the Council to set the rent at less than this level but this will have other impacts detailed below.
- 3.12 The Housing Vote document stated (Fact 1, page 6) "If the proposed new housing landlord, Swindon Housing Association, is set up following a ballot of tenants, rent increases would still be subject to the same Government formula as if the Council remains the landlord. The Government formula is currently the rate of inflation plus 0.5% plus up to £2.00 per week".
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- 3.13 There are currently around 10,500 properties, of which approximately 1,000 are already at the target rent and would therefore not get the additional £2.00 increase on top of RPI plus 0.5%. Of the remaining 9,500 tenants, around 2,500 would receive the full £2.00 increase and the balance of 7,000 would receive an increase somewhere in between depending on the individual property.
- 3.14 The decision on rent policy has a direct impact on the amount of funding that is available for capital investment and debt repayment. There are a number of options on how and when the debt is repaid. The average interest rate on the £150m of loans is 3.3%, so £1m of repayment reduces interest costs in the following years by £33k per annum. The original self-finance business plan made provision to repay debt as quickly as possible whilst maintaining the capital investment programme at the current level of £11m per year, and proposed that a repayment of £8m would be made in 2013/14.
- 3.15 All loans taken out as a result of self-financing are in the name of Swindon Borough Council, rather than the Councils Housing Revenue Account as the Council is the legal entity and has the power to borrow rather than the HRA. As such, they need to be viewed as part of the overall Council borrowing, although administratively the loan interest is ring-fenced and re-charged directly to the HRA. This enables a great degree of flexibility to the debt repayment strategy and the HRA therefore has a choice around how much of the debt it decides to repay and when as it forms part of a larger debt portfolio.
- 3.16 While delaying debt repayment would make additional monies available for capital investment, the inevitable consequence is that a greater proportion of income will be spent on interest because the debt will be held for longer. This would also reduce the scope for additional investment for future tenants.
- 3.17 On the basis that the debt settlement was calculated on the assumption that the HRA could afford to repay it over 30 years based on rents would move towards convergence, it is therefore prudent that the business plan makes provision towards repaying the debt. Although the original business plan made provision for repaying the majority of debt within the first 20 years, it is important to ensure that tenants receive the benefit of early capital investment and therefore it is proposed to repay the debt evenly over 30 years at £5m per annum
- 3.18 Rent increases being set at the convergence rate, and repaying debt of £5m in 2013/14 would result in an overall capital programme for 2013/14 of £16.8m. If the rents are set at the lower level of RPI + 0.5% this would be reduced by £708k and the amount available for capital investment would reduce by the same figure.
- 3.19 As an indication of what this would mean in terms of capital investment, a new bathroom costs around £3,100 and a new kitchen £4,500 and therefore a reduction of £708k in the funding available for capital investment would result in
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228 less bathrooms or 157 less kitchens being replaced in 2013/14. The reduced level of income however would impact on future years as future rent increases would be from a lower base, and reduced investment of £708k pa for 10 years broadly equates to 2,380 bathrooms or 1,570 kitchens. All of these options assume that the current uncommitted HRA capital reserves of £5.7m are maintained.

- 3.20 The following table summarises the effect of the rent levels on the balance available over the next 5 years to support capital investment or repay debt. The expenditure figures include all other costs such as day to day management, repairs and maintenance, interest on debt.

	12/13	13/14	14/15	15/16	16/17	17/18	Total
RPI + 0.5% + £2							
Income	46.3	48.6	49.2	51.2	52.7	54.2	255.9
Expenditure	-27.2	-26.7	-27.3	-27.8	-28.0	-28.7	-138.5
Balance	19.1	21.9	21.9	23.4	24.7	25.5	117.4
RPI + 0.5%							
Income	46.3	47.9	47.8	49.0	50.4	51.8	246.9
Expenditure	-27.2	-26.7	-27.2	-27.3	-28.0	-28.7	-138.0
Balance	19.1	21.2	20.5	21.7	22.4	23.1	108.9
RPI							
Income	46.3	47.7	47.4	48.4	49.6	50.7	243.8
Expenditure	-27.2	-26.7	-27.2	-27.3	-28.0	-28.7	-138.0
Balance	19.1	21.0	20.1	21.1	21.6	22.1	105.8
Rent Freeze							
Income	46.3	46.6	45.3	45.4	45.5	45.6	228.5
Expenditure	-27.2	-26.7	-27.2	-27.3	-28.0	-28.7	-138.0
Balance	19.1	19.9	18.1	18.1	17.5	16.9	90.5

Support and Service Charges

- 3.21 As part of rent setting last year all service charges were re-calculated to ensure that costs were fully recovered and this policy has continued this year. The main cost pressures this year have come from increases in the cost of utilities which are continuing to rise well above the rate of inflation (Gas is predicted to rise by 7% and electricity by 13%). These increases will be passed on via increases in the service charges and full details of all service charges can be found in Appendix 2. There is no proposed increase to neighbourhood warden charges.

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Leaseholder Service Charges

- 3.22 Leaseholders are recharged the full cost of providing services. The charges proposed for leaseholder are shown in Appendix 3.

Garage Rents and Parking Charges

- 3.23 Garage and parking space rents have been held this year due to the current economic situation, although cross over charges have been increased in line with inflation. Details are shown in Appendix 2.

Consultation

- 3.24 Presentation at various consultations explained the options available when setting the budget this year. 4 different rent options were presented which included increases based on the following rent options

- continuing with rent convergence (RPI+0.5%+£2)
- Increase by RPI +0.5%
- RPI
- Rent freeze.

The impact of each of these options on the amounts available for capital investment programme and debt repayment was explained.

- 3.25 Two rent setting consultation meetings were held on 6th January 2013, in total 9 tenants and 1 leaseholders attended. The main debate was around:-

- The level of rent increases and the affordability for tenants.
- The appropriate balance between debt repayment and capital investment
- The impact of welfare reform

- 3.26 The presentation was also provided to Swindon Tenants Voice (STV) on the 10th January, Tenants Association for Sheltered Housing on the 21st January, Leaseholder Link on the 29th January, and a YouTube video has also been made available for tenants. The preference from the majority of attendees at STV was for a rent freeze. The preference for TASH members was either a rent increase of RPI + 0.5% or RPI + 0.5% + maximum of £2. The outcome of the consultation meeting with Leaseholder Link on the 29th January 2013 will be reported at the Cabinet meeting.

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3.27 The Housing Advisory Forum on 23rd January 2013 discussed the HRA rents and charges, the recommendations which are outlined below:-

- (1) That the Cabinet be advised that this Forum notes:
 - (a) The rent policy options for the Financial Year 2013/14, as set out in the report.
 - (b) The investment programme and debt repayment options for the Financial Year, 2013/14 for the £150m debt held by the Housing Revenue Account.
 - (c) The proposals set out in the report in relation to Housing related support charges and service charges for the Financial Year, 2013/14.
 - (d) The proposals relating to Leaseholder service charges for the Financial Year, 2013/14.
- (2) That the Cabinet and Council be advised that this Forum requests that it reconsider the current proposed level of debt repayment of £8m and requests that the annual debt repayment be set at no more £5m during the current Financial Year and the Financial Year 2013/14, in order that additional monies currently earmarked for debt repayment may be used for the improvement of the current housing stock.
- (3) That the Cabinet and Council be advised that some of the members of this Forum supports the increase of Housing Rents and Leaseholder charges in line with the RPI Option, as set out in the report of the Cabinet Member for One Swindon, Localities and Housing..
- (4) That the Head of Housing Services be requested to establish a Finance Sub-Group of this Forum, comprising the Chairs of this Forum, Swindon Tenants Voice, TASH, Swindon Tenants Campaign Groups together with a Leaseholder representative, to consider issues relating to the management of Housing Revenue Debt.
- (5) That, further to (4) above, the Head of Housing Services be requested to advise this Forum with regard to the likely level of officer support available to any Finance Sub-Group.

Housing Revenue Account (HRA) Budget 2013/14

3.28 Appendix 4 shows the proposed HRA budget for 2013/14 assuming Members agree to the recommendations on rents and charges set out in this report. The following paragraphs outline the major movements (key variances) from the 2012/13 base budget to the proposed 2013/14 budget. This section also brings to Members' attention the short term and medium financial implications and challenges facing Swindon's HRA.

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- 3.29 The HRA Self Financing Determinations meant that the authority needed to borrow £138.6 million on the 28 March 2012. The average interest rate for this borrowing was 3.3%, lower than the 4.1% that had been budgeted for and the interest on this borrowing is c£4.9m per year, including interest on the £11.8m of HRA debt that was already in place. The budgeted cost of revenue repairs (item 3&4, Appendix 4) has been increased by £530k to £8,100k in 2013/14, as well as an additional £354k which has been provided to increase the capacity of the repairs team to undertake gas enforcement, non-traditional stock surveys, stock condition surveys and feasibility studies. This will ensure that essential repairs and maintenance, vacant property repairs and specialist services are carried out to provide an effective repairs service.
- 3.30 There are likely to be a considerable impact on the HRA and tenants as a result of Welfare Reform. At present the full impacts of the Welfare Reform Act are not known, and although increased provision for bad debts has been made within the budget, it is proposed to maintain the HRA revenue balances around their current level until the full impact of the reforms can be assessed, in order to help fund any impact beyond the budget.
- 3.31 The HRA Capital Improvement Programme covers 3 major areas
- Capital Projects and planned maintenance programme,
 - Regeneration & Acquisition / New Build programme within the HRA estate areas and
 - A Non-core works programme.
- 3.32 The improvement and refurbishment programme has been increased by £3.8m to £14.8m (item 1, Appendix 5) which reflects additional funding to address some of the items identified in the latest stock condition survey. The precise details of the work within the overall Capital Programme will be discussed with Housing Property Forum and presented to the Housing Advisory Forum for approval in March.
- 3.33 It is proposed to provide a Regeneration & Acquisition fund of up to £1m to enable the purchase of 1 & 2 bedroom properties. This will provide options for those tenants who need to downsize due to benefit being reduced where tenants under-occupy their home (the “bedroom” tax).
- 3.34 New Right to buy legislation has resulted in an increase in the number of properties being sold. As of 2 April 2012 the Right to Buy discount has been increased from a cap of £30,000 to a maximum of £75,000 or 60% of the house value (70% for a flat) depending on which is lower. However due to current economic conditions and the changes in the discounts, the capital receipts for

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these properties has reduced. To the end of December 2012, 28 sales have been recorded generating receipts of £1.2m. However, once the allowance for loan repayment and the anticipated receipts for both SBC and the Government are taken into account (which were part of the original self-financing business plan), it is anticipated that there will be a surplus of c£100k of retained funding available to support this programme.

- 3.35 It is proposed to provide a budget of £1m for non-core works. This budget is for works to provide mobility scooter stores and environmental improvements at sheltered schemes, and to upgrade / refurbish supported housing schemes at St. Ives Court and Baileys Farm Gardens.
- 3.36 It is also proposed to repay loan debt of £5m. The funding for the capital programme and debt repayment is from £21.8m of revenue surpluses that arise after all other costs including day to day repairs have been included.
- 3.37 There is no additional borrowing currently planned to be undertaken in the current proposed 2013/14 programme.
- 3.38 The proposals contained in this report will produce a balanced HRA budget in 2013/14.

General Fund Rents and Service Charges

- 3.39 Rent increases for the residential properties owned by the general fund (including the David Murray John Tower - DMJ) will follow the same rent setting approach as used for HRA properties. Appendix 6 shows the proposed service charges for the DMJ and Christopher House (Flats over the new shops at Marlowe Avenue).

Hay Lane Residential Gypsy Site

- 3.40 There are 37 plots at Hay Lane and a rent of £45.00 per week is charged in 2012/13. It is proposed to increase this charge for 2013/14 in line with other general fund properties to £47.00 per week, an increase of £2.00 per week.
- 3.41 Workpens at Hay Lane vary in size. It is proposed that the charges are frozen at the 2012/13 levels for 2013/14. It is recommended that charges for Hay Lane outlined at Appendix 6 be approved.

Homelessness Contributions

- 3.42 Cabinet has previously agreed the charges for Private Sector Leasing (PSL) properties. These are linked directly to the Local Housing Allowance which is not changing for 2013/14, and it is therefore not proposed to increase the rents within this scheme, except for the specific cases detailed below which applies to 4 bedroom properties within the scheme.

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- 3.43 Due to the introduction of Welfare Reform a benefit cap of £500 per week will be introduced which will have an impact on 8 large families that are currently housed in 4 bed accommodation under the Council's Private Sector Leasing Scheme (PSL). Currently the Council receives £235.50 via Housing Benefit per week for these properties, which represents 47% of the benefit cap.
- 3.44 There is no current guidance from Central Government as to what level of rent is considered to be affordable when compared with average income but guidance used by mortgage companies is that no more than 40% of income should be used for housing costs. In London, The Mayor and his housing adviser have proposed that this cap of 40% should be adopted. This would result in these families paying a weekly rent of £200.00 and it is proposed that the Council adopt a cap of 40% for rents when these households are affected by Welfare Reform. The financial impact of capping these rents is a loss of rent income to the General Fund of c£15k p.a. However, not agreeing to this proposal could result in the families facing financial difficulty which could result in non-payment of rent and ultimately additional cost and resources in resolving any issues. Appendix 7 contains further detail around this.

12/13 Budgeted debt repayment

- 3.45 The current 2012/13 HRA budget includes provision for repaying debt of £7,977,300. The financial implications of reducing this repayment would be a resulting increase in the interest charges to the HRA in 2013/14 and each subsequent year of 3.32% per £1,000,000 repaid. Therefore making no debt repayment in 2012/13 will increase interest costs in 2013/14 and each subsequent year by £264,717 which will need to be funded from elsewhere within the HRA budget.

Alternatives

- 3.46 The level of rent increase no longer impacts subsidy under the new self-financing rules and the Council therefore has freedom as to what level these are set at. The level of income directly impacts the funds available for capital investment and/or debt repayment and again there is freedom as to how this is allocated.
- 3.47 Limiting the rent increases to RPI plus 0.5% instead of moving towards convergence would result in a reduction of income to the HRA of £708k pa when compared with an increase based on convergence.
- 3.48 Increasing the debt repayment in 2013/14 from £5m to £8m would result in £3m less funding being available for capital investment, but would result in a reduction of £99,600 per annum in interest costs from 2014/15 and each year beyond.

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4. Alternative Options

- 4.1 Any alternative options for specific areas are set out within the report.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 These have been reflected in the body of the report.

Legal and Human Rights Implications

- 5.2 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 There are no such direct implications.

Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

Diversity Impact Assessment

- 5.5 A Diversity Impact Analysis (DIA) has been completed. Adverse impacts were identified and have been mitigated. Implementing the proposed rent increase has some potential to create an adverse impact particularly on the basis of age and disability where increases in rent levels are not covered by housing benefit. This is unlikely for those currently in receipt of benefit. It should also be noted that welfare reforms do not impact on anyone who is of pensionable age. The difficulties will arise for those on low incomes such as occupational pensions and low paid full time workers where living costs rise above the annual rate of increases in personal income.
- 5.6 The Council's Discretionary Housing Payment Fund will be used to target those in greatest need on the basis of age and disability.

6. Consultees

- 6.1 The Board Director Finance, Revenues, Benefits and Property (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

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7. Background Papers and Appendices

Appendix 1 – Overview of HRA Revenue Budget.

Appendix 2 – Service charges for 2013/14.

Appendix 3 – Leaseholder Charges.

Appendix 4 – Detailed HRA Budget 2013/14.

Appendix 5 – Proposed HRA Capital Budget 2013/14.

Appendix 6 – Proposed HGF Rents & Service Charges 2013/14.

Appendix 7 – Proposed Cap on Private Sector Leasing Rents.

8. Key Decision/Decision in Forward Plan

- 8.1 This is not a key decision for the Cabinet as it will be determined by the full Council. This item is included in the Cabinet Work Programme / Forward Plan for February 2013.