

# CABINET

## Budget & Policy Framework Update – Housing Revenue Account Budget and Capital Programme 22 January 2008

### Report of Corporate Director (Community Services) and Head of Financial Services

PURPOSE OF REPORT				
This report updates the Housing Revenue Account (HRA) revised budget position for the current year and sets out the recommended budget for 2008/09 and future years. It also sets out the updated Capital Programme for 2007/08 and a proposed programme to 2012/13.				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date Included in Forward Plan	January 2008			
This report is public.				

#### RECOMMENDATIONS OF COUNCILLORS GILBERT AND KERR:

1. That the Housing Revenue Account Revised Budget for 2007/08, as set out at Appendix A, be recommended to Budget Council for approval, with the net savings being used to help finance future years' capital investment.
2. That the revenue growth bids set out at Appendix B be supported.
3. That the Housing Revenue Account Budget for 2008/09 as set out at Appendix A be recommended to Budget Council for approval.
4. That Cabinet recommends to Council that the minimum level of HRA unallocated balances be retained at £350,000 from 01 April 2008, and that the Statement on Reserves and Balances be noted and referred to Budget Council for information.
5. That average council housing rents for the year commencing 01 April 2008 be set at £56.86, representing an increase of 5%.
6. That future year budget projections continue to assume a 5% year on year increase in average rents.

7. That the Capital Programme as set out at Appendix E be referred on to Budget Council for approval.
8. That the revenue budgets and capital programme be referred to the District Wide Tenants Forum on 06 February 2008, and that any issues arising are fed into Cabinet, prior to Budget Council.

### Introduction

The Council is required under statutory provisions to maintain a separate ring-fenced account for all transactions relating to the provision of local authority housing, known as the Housing Revenue Account (HRA). This account includes all transactions relating to the maintenance and management of the Council's housing stock.

It is therefore necessary to prepare separate revenue and capital budgets for the HRA each year, and to set the level of housing rents in sufficient time for the statutory notice of rent variations to be issued to tenants by 01 March. In order to meet this deadline, it is recommended that Cabinet set the rent increase for 2008/09 at this meeting, and recommend a balanced budget and fully financed Capital Programme to Council for agreement on 27 February 2008.

## 1 2007/08 REVISED BUDGET

- 1.1 A review of the current HRA budget has been undertaken, resulting in an additional net saving of £186k when compared with the original budget. A summary statement is set out at **Appendix A** and the main variations are shown below:

<b>SUMMARY OF MAIN VARIANCES ON HRA</b>	<b>£'000</b>
<b>FAVOURABLE VARIANCES:</b>	
Commercial rents	-44
Charges for Services and Facilities	-144
Rent, rates, taxes and other charges	-59
Interest Payable and Similar Charges	-29
Net decrease in Transfers to Earmarked Reserves	-102
<b>ADVERSE VARIANCES:</b>	
Repairs and Maintenance	+56
Supervision and Management	+42
Housing Subsidy – payments to Central Government	+33
Provision for Bad Debts	+57
Other Minor Variances	+4
Net Saving on HRA	-186
Increased contribution to Direct Revenue Financing	+186
Change in Balance on HRA	0

- 1.2 Taking account of the recommended Revised Budget outlined above, HRA Balances would be as follows. It can be seen that in general terms, the balances position is as originally forecast. This is because surplus resources have been transferred to help fund future years' capital investment, linked to the 30-year Business Plan.

	<b>2007/08 Original Budget £'000</b>	<b>2007/08 Revised Budget £'000</b>
Balance brought forward from 2006/07	350	759
Transfer to/(from) Balances	-	(409)
Forecast Balances as at 31 March 2008	350	350

- 1.3 Cabinet is recommended to refer the HRA Revised Budget for 2007/08 to Council for approval.

## **2 2008/09 BASE BUDGET AND FUTURE YEARS' PROJECTIONS**

- 2.1 The draft budget has now been prepared for 2008/09 with projections for 2009/10 and 2010/11. The budgets are set out in line with Accounting Requirements. Specific aspects of the budget proposals are outlined in more detail below.

### **2.2 Housing Subsidy**

- 2.2.1 Housing Subsidy is calculated from a number of components. Authorities receive an allowance per property based on notional expenditure on management, maintenance, and major repairs. Added to these allowances is the actual expenditure on debt charges to give a notional total expenditure amount. From this is taken the notional rent income per property and actual interest receivable, to give a notional HRA surplus or deficit.

- 2.2.2 For those authorities with a notional deficit, subsidy is payable from Central Government to cover that deficit. Conversely authorities with a notional surplus are required to make payments to Government and this is known as a 'negative subsidy' position – the City Council is in such a situation.

- 2.2.3 The HRA Subsidy Draft Determinations were published on 23 November 2007. The general formula for calculating the amount of subsidy payable for 2008/09 is essentially unchanged, with the exception that Rental Constraint Allowance has been removed. Also the Determination is for one year only, and a new Determination will be issued for 2009/10, hence future years estimates have been based on the assumption that the formula will remain unchanged. A breakdown of the key areas is as follows:

- **Management and Maintenance (M&M) Allowances:** These are key expenditure assumptions within the HRA subsidy system. There have been no changes to the formulae used for M&M allowances and the Council's combined allowances have increased by 2.68%.

- **Guideline Rents:** The rent income figure within housing subsidy is calculated based on a 'guideline' rent; this notional rent is calculated by Government based on a number of assumptions. For 2008/09, the guideline rent provides for an annual increase of 5.67%.
- **Rental Constraint Allowance (RCA):** The Rental Constraint Allowance has been removed and contrary to the assumption as last reported, the Government has not made any level of alternative allowance.
- **Major Repairs Allowance (MRA):** This represents the estimated long-term average amount of capital spending required to maintain the housing stock in its current condition. For the Council, MRA has increased by 1.34% per property for 2007/08. However the overall total allowance has increased by just 0.42%, this is due to the disposal of HRA dwellings under the Right to Buy scheme. The overall increase is down by more than 1% on last year.
- **Negative Subsidy Payable to Government:** The combination of the above, together with the other elements in the Subsidy calculation, produces an overall rise of £541k in the estimated amount payable for 2008/09, when compared with the revised budget for current year (and excluding previous year adjustments). Though the expectation for the Council was a rapid increase in subsidy payable, this increase is still £218K higher than previously reported figures for 2008/09. This is mainly attributable to the following:
  - Much lower than anticipated MRA Allowance (£36k adverse impact on the Council)
  - No alternative allowance made for the removal of rental constraint allowance (£71K adverse impact)
  - Estimate for the Charges for Capital were based on a higher CRI, than is currently estimated. (Though this is offset by a corresponding reduction in actual interest charges, elsewhere in the HRA, it has an adverse impact on the subsidy payable of £75K).

2.2.4 The following table summarises the current projections of Subsidy for Lancaster to 2010/11:

	2007/08 Original Budget £'000	2007/08 Revised Budget £'000	2008/09 Budget £'000	2009/10 Projection £'000	2010/11 Projection £'000
Management Allowance	1,895	1,895	1,990	2,049	2,110
Maintenance Allowance	3,753	3,753	3,809	3,937	4,075
Major Repairs Allowance	2,268	2,268	2,278	2,332	2,390
Admissible Allowance	0	0	0	0	0
Charges for Capital	1,828	1,777	1,779	1,794	1,794
	9,744	9,693	9,856	10,112	10,369
<i>LESS:</i> Guideline Rent	-10,692	-10,692	-11,194	-11,742	-12,329
<i>ADD:</i> Rental Constraints Allowance	166	203	0	0	0
Interest on Receipts	-4	-4	-3	-5	-5
Subsidy Adjustment Prior Year		-20			
<b>Negative Subsidy Payable to Govt.</b>	<b>-786</b>	<b>-820</b>	<b>-1,341</b>	<b>-1,635</b>	<b>-1,965</b>

## 2.3 Council Rent Levels

2.3.1 Central Government sets a 'Limit Rent' for each authority as part of the Subsidy Determinations. If a Council sets its rent above this level it will be penalised by way of Rent Rebate Subsidy Limitation. The recommended increase in average rent for 2008/09 is 5%, which is marginally below the maximum increase permissible within the Limit Rent, which is 5.5%. The reasons for recommending the lower level of increase are that:

- This is consistent with the medium-term assumptions previously made
- It is sufficient to maintain the financial viability of the Account and its contribution to the 30 year Business Plan
- Only a small amount of income (£55K) is foregone while keeping the rise to a more affordable level for tenants.

## 2.4 Rent Collection Periods

2.4.1 The council will be collecting rents over the standard 48 weeks with 4 rent free weeks.

## 2.5 Star Chamber

2.5.1 A number of budget proposals have been put forward, details of which are set out in **Appendix B**. The Growth proposals in total amount to £75K in 2008/09 and £19K recurring in future years. Should Cabinet not wish to support some or all of the requests, then it would be proposed to adjust accordingly the provision for Direct Revenue Financing (DRF) of Capital Expenditure, which is already included in the draft budget.

2.5.2 A proposal for recurring savings of around £55k in respect of reduction in management capacity was presented to Star Chamber on 12 September 2007. It was proposed by Star Chamber that further review of the options were to be

produced and considered, hence for the purpose of this report, these savings have not been included.

## 2.6 Reserves and Balances

- 2.6.1 The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Head of Financial Services takes account of the strategic, operational and financial risks facing the authority. Progress continues to be made in managing such risks, in line with the Council's recently updated Strategy. In addition the Officer needs to take account of the effectiveness of internal financial and other controls; assurance on these can be taken from the respective formal Statements and external assessments. Consideration has also been given to the specific risks and assumptions underlying the HRA as set out in **Appendix C**.
- 2.6.2 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises retaining the minimum level of HRA balances at £350K to support the budget forecasts, as part of the overall medium term financial planning for the HRA. Should Members choose not to accept this advice, then this should be recorded formally in the minutes of the meeting. It is also highlighted that unless there is a significant increase or decrease in financial risk, the current recommendation to retain HRA balances at a minimum of £350K will stand for future years. One aspect that may impact on this in future, however, is the Government's recent announcement to review the HRA subsidy system, to 'examine the case for change'. This is due to make its final report in Spring 2009, but it will also be asked to provide earlier advice in 2008 to inform Government decisions regarding council rents and subsidy determinations from 2009/10 onwards. Progress on the review will be monitored if possible, during next year.
- 2.6.3 In effect, setting the minimum level of balances at £350K would mean that any surplus balances would be available to support capital investment and the 30-year Business Plan. Such use is reflected in the HRA budget proposals as set out in Appendix A. It can be seen from this that HRA balances are maintained at just the minimum level in future years. This is because all other available resources have been applied to funding the capital programme via Direct Revenue Financing (DRF), thereby allowing Major Repairs Reserve monies to be built up to support the 30-year Business Plan.
- 2.6.4 Cabinet may recall that in order to fund the Business Plan, it was originally forecast that resources of approximately £11.4M would need to be set aside by 2013. Under the current budget proposals, it is forecast that balances of £9.8M will be set aside by the end of 2012/13, leaving a gap of £1.6M. This is still an improvement of £1.9M on the last reported position of £3.5M.
- 2.6.5 A draft statement on all reserves is attached at **Appendix D**. These are viewed as adequate for the period covered, but will need to be reviewed regularly as shown. Cabinet is asked to note this information, with the Statement being referred on to Council in support of its HRA budget and housing rent proposals.

## 2.7 Overall Position

If rents were to be set in line with the recommended increase and the other various budget issues were approved as set out above, the overall position regarding the HRA budget would be as set out at **Appendix A**. This shows that for 2008/09, the

Account can make a contribution of £1.78M towards the funding of capital expenditure, while meeting all forecast revenue expenditure and retaining a balance of £350K. This contribution will reduce slightly in future years, to £1.65M by 2010/11.

In essence the above proposals mean that a substantial proportion of revenue funding would be used to support capital spending, with surplus resources being held in the Major Repairs Reserve. If in future, however, there was a need to switch available resources between revenue and capital, this could be facilitated.

### **3 REVISED CAPITAL PROGRAMME 2007/08**

- 3.1 The Council Housing Capital Programme was set at £3.527M by Council on 20 February 2007. This programme has since been updated by Cabinet for the addition of £157K of slippage on 24 July 2007.
- 3.2 Total savings of £142K have been identified, i.e. £80K on Kitchen/Bathroom Refurbishments against a budget of £1.035M, and £62K on Environmental Improvements against a budget of £397K. These procurement savings are a direct result of receiving lower than estimated tenders. The revised Capital Programme, which now totals £3.542M, is attached at **Appendix E** for Members' approval.

### **4 CAPITAL PROGRAMME 2008/09 TO 2012/13**

- 4.1 Council Housing Services have a statutory duty to ensure that all of the Council Housing stock meets the Decent Homes Standard by 2010. The stock currently meets the Standard; this was confirmed by a Stock Condition Survey undertaken in 2001. However another survey is currently underway and this is using new methodology, which incorporates the new Housing Health and Safety Rating System for determining the Standard. The results of this survey are expected to be concluded by February 2008. Ideally, the Council needs to maintain its stock to at least Decent Homes Standard leading up to 2010, and therefore it will need to respond to any issues identified by the current Stock Condition Survey, should they arise.
- 4.2 In addition, the Council has agreed its own standard, for improvement works, i.e. the Lancaster Standard, and this exceeds the Decent Homes Standard (as determined under the old methodology). This Lancaster Standard has been agreed with the District Wide Tenants Forum.
- 4.3 The Council has a long-term investment programme, which identifies resources needed to maintain a viable 30-year Business Plan, taking account of such Housing Standards. The present business plan has been signed off by the Government Office as being fit for purpose.
- 4.4 One of the outcomes from the Stock Options Appraisal was that future years' programmes should be set in line with the HRA Business Plan wherever possible. The recommended Capital Programme is set out at **Appendix E**. Whilst this has been extended into 2012/13, other than the changes in connection with direct revenue financing changes outlined earlier, there are no other major changes proposed to balance the 5-year Programme. The programmes will enable the housing stock to continue to meet both the Decent Homes Standard (under the old methodology) and the Lancaster Standard, using the information from the 2001

survey. However these programmes may need to be revised in future, once the results of the current Stock Condition Survey are known.

- 4.5 Also as mentioned earlier, the Business Plan shows that surplus resources of approaching £9.8M are forecast to be set aside over the next five years or so in order to fund later years, and it is still necessary to do further work in understanding how such financial projections contained in the HRA Business Plan link with the projected revenue and capital budgets. Though the work has commenced, it is intended that it will be finalised and concluded during 2008/09. It will also need to have regard to information arising from the Subsidy Review mentioned earlier, however, and this may impact on timescales.

### **Details of Consultation**

It is intended that the draft Revenue Budget and Capital Programme will be presented to a meeting of the District Wide Tenants' Forum to be held on 06 February 2008. It is intended that any views expressed by the Forum will be fed into the February Cabinet meeting, and then included in the report to Council on 27 February 2008.

### **Options and Options Analysis (including risk assessment)**

With regard to the Revised Budget Cabinet could consider other proposals that may influence the Revised Budget for the year and the call on revenue balances.

The options available in respect of the 2008/09 rent increase are to:

- i) Set the average housing rent at 5% as proposed in paragraph 2.3.1;
- ii) Set the rent at a lower level: this would reduce the income available to the Housing Revenue Account;
- iii) Set the rent increase at a higher level, up to 5.5%, i.e. within the Limit Rent
- iv) Set the rent increase at a level higher than 5.5%, i.e. above the Limit Rent. Although this would generate additional income, around 60% of that income would have to be paid over to the Government through Rent Rebate Subsidy Limitation.

The options available in respect of the minimum level of HRA balances are to set the level at £350,000 in line with the advice of the Section 151 Officer, or to adopt a different level.

The options available in respect of the revenue budgets for 2008/09 to 2010/11 are to recommend the budget as set out to Budget Council for approval, or to consider other proposals for incorporation.

The options available in respect of the Capital Programme are:

- i) To approve the programme in full, with the financing as set out;
- ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified.



Any risks attached to the above would depend very much on what supported measures Members proposed, and their impact on the council housing service. As such, a full options analysis could only be undertaken once any alternative proposals are known. It should be noted that Officers may require more time in order to do this.

#### **Officer Preferred Option and Comments**

The Officer Preferred options are to approve a 5% increase in average rents, and to approve the draft revenue and capital budgets as set out in the appendices. These are as reflected in the recommendations.

<b>RELATIONSHIP TO POLICY FRAMEWORK</b> The budget represents, in financial terms, what the Council is seeking to achieve through its approved Housing Strategy in relation to council housing.	
<b>CONCLUSION OF IMPACT ASSESSMENT</b> (including Diversity, Human Rights, Community Safety, Sustainability etc)	
<b>FINANCIAL IMPLICATIONS</b> As set out in the report.	
<b>DEPUTY SECTION 151 OFFICER'S COMMENTS</b> The Section 151 Officer has been involved in the preparation of this report and her comments are reflected accordingly. Her explicit legislative requirements in terms of reporting on the robustness of estimates and other budget issues, will be covered in future reports to Council also.	
<b>LEGAL IMPLICATIONS</b> Legal Services have been consulted and have no further comments to add.	
<b>MONITORING OFFICER'S COMMENTS</b> The Monitoring Officer has been consulted and has no further comments to add.	
<b>BACKGROUND PAPERS</b> HRA Subsidy Determinations	<b>Contact Officer: Aisha Bapu</b> Telephone: 01524 582117 E-mail: <a href="mailto:abapu@lancaster.gov.uk">abapu@lancaster.gov.uk</a>