

CABINET

2010/11 Budget & Policy Framework Update – Housing Revenue Account and Capital Programme 19 January 2010

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 2010/11 and future years. It also sets out the updated Capital Programme for 2009/10 and a proposed programme to 2014/15.				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date Included in Forward Plan	January 2010			
This report is public.				

RECOMMENDATIONS OF COUNCILLOR KERR:

1. That the Housing Revenue Account Revised Budget for 2009/10, as set out at Appendix A, be recommended to Council for approval.
2. That the revenue growth bids as set out at Appendix B be supported, to be funded by reductions in the contributions into the Major Repairs Reserve.
3. That the Housing Revenue Account Budget for 2010/11 as set out at Appendix A, as amended for growth above, be recommended to Council for approval, subject to there being no major changes arising from the final housing subsidy determination.
4. That Cabinet recommends to Council that the minimum level of HRA unallocated balances be retained at £350,000 from 01 April 2010, and that the Statement on Reserves and Balances be noted and referred to Council for information.
5. That average council housing rents for the year commencing 01 April 2010 be set at £60.06, representing an increase of 2.75%.

6. That at present future year budget projections continue to assume a 5% year on year increase in average rents, with this being reviewed once the final outcome of Government's reform of council housing finance is known .
7. That the Capital Programme as set out at Appendix E be referred on to Council for approval.
8. That Cabinet notes that the proposed revenue budgets and capital programme will be referred to the District Wide Tenants Forum and that any issues arising are planned to be fed directly into Council.

1 INTRODUCTION

- 1.1 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.
- 1.2 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 2010/11 at this meeting, and recommend a balanced budget and fully financed Capital Programme for referral on to Council.

2 2009/10 REVISED BUDGET

- 2.1 A review of the current HRA budget has been undertaken. Whilst operationally, some net savings have been achieved, surplus balances brought forward from last year have now been applied, resulting in an overall increase in net expenditure of £144K when compared with the original budget. A summary statement is set out at **Appendix A** and the main variations are also shown below, discounting any notional items. One of the key changes relates to making some provision for estimated costs arising in connection with the proposed senior management restructure; a Restructuring Reserve of £100K for Council Housing is now assumed. Whilst no final decisions have been made regarding such restructuring, the draft budget should make provision to facilitate any plans should they go ahead. If plans change, any reserves not required would simply fall back into balances.

SUMMARY OF MAIN VARIANCES ON HRA	£'000
Operational Variances: (+)Adverse / (-)Favourable	
Approved Carry Forward Requests (re 2008/09 underspendings)	+52
Reduction in Dwellings Rent (resulting from in-year decision)	+251
Reduction in HRA Subsidy Payable (related to rents item above)	-252
Charges for Services and Facilities	-121
Repairs and Maintenance	+100
Supervision and Management	-116
Increase in Provision for Bad Debts	+62
Reduced Interest on Investments	+76
Reduction in Interest Payable and Similar Charges	-47
Other Minor Variances	-20
Sub-total:	-15

Other Variances:	
Contribution to Restructuring Reserve	+100
Net Changes regarding Other Earmarked Reserves	-72
Increase in Contributions to Major Repairs Reserve (MRR)	+295
Reduction in Direct Revenue Financing	-164
Forecast Change in Net Position for Year (+ Adverse) (i.e. Increase Required in Contribution from Revenue Balances)	+144

- 2.2 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 any surplus resources have been transferred to help fund future years' capital investment, linked to the 30-year Business Plan.

	2009/10 Original Budget £'000	2009/10 Revised Budget £'000
Balance brought forward from 2008/09	350	494
Transfer to/(from) Balances	-	(144)
Forecast Balances as at 31 March 2010	350	350

- 2.3 Cabinet is recommended to refer the HRA Revised Budget for 2009/10 to Council for approval.

3 **2010/11 BASE BUDGET AND FUTURE YEARS' PROJECTIONS**

- 3.1 The draft budget has now been prepared for 2010/11 with projections for 2011/12 and 2012/13. The budgets are set out in line with Accounting Requirements. Specific aspects of the budget proposals are outlined in more detail below.

3.2 **Housing Subsidy**

- 3.2.1 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.

- 3.2.2 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.

- 3.2.3 The Draft HRA Subsidy Determinations for 2010/11 were published late this year, on 10 December 2009, the consultation period for which ends on 25 January. This means that the final determinations (which are normally received before Christmas) will not be ready for publication until after the consultation period ends, i.e. after the

January Cabinet meeting. Should there be any significant changes in the final determinations, the HRA budget proposals would have to be amended accordingly and brought back for reconsideration by Cabinet – though it is assumed that any changes would have to be managed through means that would not impact on rent levels. That said, it is not expected that significant changes will arise in the final determinations, but this is not guaranteed.

3.2.4 At present though, no significant changes have been proposed to the current subsidy system and it is understood that these are being avoided until after the final outcome of the work on the 'Reform of the Council Housing Finance' is known. Therefore the Draft HRA Subsidy Determinations are constructed using similar parameters as those used in previous years. It should be noted that the Determination is for one year only, and a new Determination will be issued for 2010/11, hence future years' estimates have been based on the assumption that the formulae will remain unchanged. A breakdown of the key areas is as follows:

- **General Formula:** The general formula for calculating the HRA subsidy payable for 2010/11 is based on that used for the original 2009/10, subsidy determinations in December 2008.
- **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 allowances have increased by just over 2% and 1% retrospectively.
- **Guideline Rents:** The rent income figure used for calculating housing subsidy is based on a 'guideline' rent; this notional rent is calculated by Government based on a number of assumptions. For 2010/11, the guideline rent is £60.66 which provides for an average annual increase of 3.1%, before the adjustment for Caps and Limits.
- **Limit Rents:** Although not part of the Subsidy Determinations, Government also sets a 'Limit Rent' for each authority, for housing benefit subsidy purposes. For 2010/11, the Limit Rent is £61.82, which is an increase of just over 2%. If the Council sets its rent above the limit rent, it will be penalised by way of Rent Rebate Subsidy Limitation.
- **Caps and Limits Adjustment:** In 2008/09 the Government returned to the Caps and Limits adjustment to compensate authorities for keeping their actual rent increases *below* the Government's proposed upper level. Assuming therefore that the City Council keeps its actual rent increase to no more than this upper level (RPI +.5%+ £2), the full compensating adjustment would be applied to the guideline rent for subsidy purposes. This effectively reduces any upward pressure on the level of negative subsidy but for 2010/11 only.
- **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 just 0.18% per property for 2010/11.
- **Negative Subsidy Payable to Government:** The combination of the above, together with the other elements in the Subsidy calculation, produces an overall increase of £641K in the estimated amount payable for 2010/11, when compared with the revised budget for current year. The main reasons for this are the very small

increase in the MRA and the impact of a reduced Caps and Limits adjustment that has resulted in a much higher increase in guideline rent.

3.2.5 The following table summarises the current projections of subsidy for Lancaster to 2012/13:

	2009/10 Original Budget £'000	2009/10 Revised Budget £'000	2010/11 Budget £'000	2011/12 Projection £'000	2012/13 Projection £'000
Management Allowance	2,005	2,005	2,048	2,119	2,191
Maintenance Allowance	3,922	3,922	3,970	4,108	4,246
Major Repairs Allowance	2,304	2,304	2,307	2,364	2,420
Charges for Capital	1,793	1,704	1,723	1,798	1,809
	10,024	9,935	10,048	10,389	10,666
LESS: Guideline Rent	-11,206	-10,865	-11,621	-12,025	-12,430
Interest on Receipts	-3	-3	-1	-5	-5
Subsidy Adjustment Prior Year					
Negative Subsidy Payable to Govt.	-1,185	-933	-1,574	-1,641	-1,769

3.3 Council Rent Levels

3.3.1 As mentioned earlier, Central Government sets a 'Caps and Limits Adjustment' for each authority. To take advantage of this (but avoid any penalties on subsidy), the allowable increase in average rent for 2010/11 is 2.75%, which would produce an average weekly rent of £60.06. This is well below the maximum of £61.82 stipulated by the Limit Rent. This level of increase is:

- below the medium-term assumptions previously made;
- sufficient to maintain the financial viability of the Account and its contribution to the 30 year Business Plan, at least in the short term until the outcome of the financing reform is known;
- designed to keep rent rises at a more affordable level for tenants;
- calculated to maximise the subsidy position of the Council without incurring rent rebate limitation penalties and reductions in caps and limits adjustments.

3.3.2 However, it is assumed that the 5% increase will be retained for future years. This assumption supports:

- the longer term financial viability of the Account and its contribution to the 30 year Business Plan, recognising the uncertainties until any reforms are announced, and giving flexibility to respond accordingly if need be;
- keeping rent rises closer to the Governments proposal for rent restructuring;
- the Authority in keeping as near to the Government's convergence target as possible, whilst keeping rents at a reasonably affordable level for the tenant, and

- keeping rent levels below the projected Limit Rent and projected upper level to avoid incurring rent rebate limitation penalties and reductions in caps and limits adjustments.

3.3.3 Whatever rent increases are assumed for 2011/12 onwards, they will need to be reviewed once Government has made announcements regarding future reforms.

3.4 Rent Collection Periods

3.4.1 The council will be collecting rents over the standard 48 weeks with 4 rent free weeks. As was reported earlier this year, actual weekly rent increases payable by tenants for 2010/11 will be skewed slightly because of the mid-year changes during 2009/10, but this is unavoidable.

3.5 Savings and Growth

3.5.1 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 £263K in 2010/11, £3K in 2011/12 and £13K in 2012/13. Should Cabinet wish to support some or all of the requests, then it is proposed to adjust accordingly the budgeted contribution to (or from) the Major Repairs Reserve. Given the nature of the proposals, this will not have any major implications for the 30-year Business Plan. It is highlighted however that as yet, the draft budgets as set out at Appendix A do not provide for any such adjustments regarding growth.

3.5.2 Cabinet will be aware that earlier in the year, approval was given to seek funding to develop a choice based lettings scheme. Should the funding be successful, a contribution of £40K would be required and the budget assumes that this will be taken from the IT Replacement Reserve. A further report to Cabinet regarding the options for implementing any scheme would be submitted in due course.

3.5.3 Any operational savings have been adjusted for during the budgeting process, these have been relatively minor and no further proposals have been made. It should be noted however that the draft budget makes no assumptions as yet regarding any ongoing savings from the senior management structure, and it may not result in salary savings in 2010/11 even if approved. As such, any budget changes arising would be effected during the year as appropriate.

3.6 Reserves and Balances

3.6.1 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**.

3.6.2 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. However, this may well change in the future. Government is due to publish its final proposals on the 'review of the HRA subsidy system' and inform Councils of the terms and conditions on which they can leave the current housing subsidy system.

- 3.6.3 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 already 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.
- 3.6.4 Cabinet may be aware that in order to fund the Business Plan, it was originally forecast that resources of approximately £14.3M would need to be set aside by 2015. Under the current budget proposals, it is forecast that balances of £10.5M will be set aside by the end of 2014/15, leaving a gap of £3.7M. This has deteriorated by £1.2M on the last reported position of £2.5M but will be reviewed in due course (see comments in s5.5 later in this report).
- 3.6.5 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 proposals.

3.7 Overall Position

- 3.7.1 If rents were to be set in line with the proposals made under 3.3 of this report and the other various budget issues were approved as set out above, but excluding any growth assumptions, the overall position regarding the HRA budget would be as set out at **Appendix A**. This shows that for 2010/11, the Account would make a contribution of £1.305M towards the funding of in-year capital expenditure, whilst meeting forecast base revenue expenditure and retaining a balance of £350K.
- 3.7.2 In essence the above proposals mean that a substantial proportion of revenue funding would be used to support capital spending, with further 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.

4 REVISED CAPITAL PROGRAMME 2009/10

- 4.1 The Council Housing Capital Programme was set at £3.55M by Council on 04 February 2009. This programme has since been updated by Cabinet for the addition of £478K of slippage on 28 July 2009.
- 4.2 The Capital programme has then been adjusted to incorporate procurement savings, new additions and other projected variances. Procurement savings total £398K, these are a direct result of receiving lower than estimated tenders and are as follows:
- £20K on Kitchen/Bathroom Refurbishments
 - £101K on External Refurbishments

- £273K on Re-Roofing/Window Renewals
- £4K on Environmental /Crime Prevention Works

4.3 The following additions totalling £190K have been made to the capital programme:

- £78K for Capital Salaries
- £15K Prospect Grove Office Conversion
- £67K for IT Software
- £30K Boiler Replacement on Sheltered Schemes

4.4 A further increase of £28K has been made to the capital programme to allow for expected variances at the end of the year, these are made up of the following:

- £77K saving on Kitchen/Bathroom Refurbishments
- £13K saving on Re-Wiring
- £17K saving on Renewal of Heaters
- £26K saving on IT Replacement
- £71K increase to External Refurbishments
- £60K increase to Environmental /Crime Prevention Works
- £30K increase to Energy Efficiency Works

4.5 The revised 2009/10 Capital Programme, which now totals £3.848M, is attached at **Appendix E** for Members' approval.

5 CAPITAL PROGRAMME 2010/11 TO 2014/15

5.1 Council Housing Services have a statutory duty to ensure that all of the Council Housing stock meets the Decent Homes Standard by 2010. Following the Stock Condition Survey undertaken during 2007/08, it was identified that 1% of the stock did not meet the Decent Homes Standard. The work identified was minor in nature and has been addressed through the Housing Revenue Account Responsive Repairs Budget. Ideally the Council needs to maintain its stock to at least Decent Homes Standard leading up to 2010.

5.2 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.

5.3 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.

5.4 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 2014/15, other than the changes in connection with revenue financing outlined earlier, there are no other major changes proposed to balance the 5-year Programme. The Capital and Revenue Planned Maintenance Programmes identified for 2010/11 have been drawn up from the information from the 2001 & 2008

Stock Condition Surveys and contained within the 30 year Business Plan. The programmes will enable the housing stock to continue to meet both the Decent Homes Standard and the Lancaster Standard using the information from the 2001 & 2008 surveys. However these programmes may need to be revised in future, once the results of the 2008 Stock Condition Survey have been processed through the Resource Accounting software, to provide a spend profile over a 30 year period.

- 5.5 Also as mentioned earlier, the Business Plan shows that surplus resources approaching £10.5M are forecast to be set aside over the next five years or so in order to fund later years, and though initial scenarios have been tested it is necessary to do further work in understanding how such financial projections contained in the HRA Business Plan will link with the projected revenue and capital budgets under a self financing system or an improved subsidy system. It is intended that this exercise will be concluded and reported to cabinet during 2010/11 after Government makes its final proposals on the 'review of the HRA subsidy system' and inform Councils of the terms and conditions on which they can leave the current housing subsidy system. Further information is expected next month.

6 DETAILS OF CONSULTATION

- 6.1 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 in January 2010. It is also intended that any views expressed by the Forum will be fed directly into Council.

7 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 7.1 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.
- 7.2 The most obvious options available in respect of the 2010/11 rent increase are to:
- i) Set the average housing rent at £60.06, ie an increase of 2.75% as proposed in paragraph 3.3.1;
 - ii) Set the rent increase at a higher level of 3.1% in line with the Government's Guideline Rent increase. This would result in an actual average rent of £60.26. This would further increase rental income available to the Housing Revenue Account by £40K in 2010, but even though this increase is within the Limit Rent, there would be a £ for £ reduction in the caps and limits adjustment, resulting in a net nil impact on the HRA.
 - iii) Set the rent increase in line with the Councils existing policy of 5%, making the actual average rent £61.37. This is also within the Limit Rent and would generate further rental income of £257K, but the same adjustment in caps and limits would apply and would result in a net nil impact on the HRA. The benefit of this option (and option (ii) above) would be that the Authority would enhance the rate at which it would achieve convergence, with no negative financial implications to the HRA but at the expense of housing tenants.
- 7.3 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. Should Members choose not to accept the advice on the level of balances, then this should be recorded formally in the minutes of the meeting, and could have implications for the Council's financial standing, as assessed by its external auditors.

7.4 The options available in respect of the revenue budgets for 2010/11 to 2012/13 are to recommend the budget as set out to Council for approval, or to consider other proposals for incorporation.

7.5 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.

7.6 Any risks attached to the above would depend very much on what 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. The risks attached to the provisional nature of current subsidy determinations will be managed through future reporting arrangements, as set out in the report.

8 OFFICER PREFERRED OPTION AND COMMENTS

8.1 The Officer Preferred options are to:

- approve the 2009/10 revised Revenue Budget as set out;
- approve the provisions, reserves and balances positions as set out;
- set a 2.75% increase in average rents, and to approve the draft revenue and capital budgets as set out in the appendices, as amended for any revenue growth supported by Cabinet, for referral on to Council as appropriate.

These are as reflected in the Member recommendations.

RELATIONSHIP TO POLICY FRAMEWORK
The budget represents, in financial terms, what the Council is seeking to achieve through its approved Housing Strategy in relation to council housing.
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) No significant implications directly arising.
FINANCIAL IMPLICATIONS As set out in the report.
SECTION 151 OFFICER'S COMMENTS 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.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no observations to make on this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

HRA Subsidy Determinations

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