

# CABINET

## Budget & Policy Framework Update – Housing Revenue Account Budget and Capital Programme 20 January 2009

### 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 2009/10 and future years. It also sets out the updated Capital Programme for 2008/09 and a proposed programme to 2013/14.

Key Decision

X

Non-Key Decision

Referral from  
Cabinet Member

Date Included in Forward Plan

January 2009

This report is public.

#### RECOMMENDATIONS OF COUNCILLOR KERR:

1. That the Housing Revenue Account Revised Budget for 2008/09, 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 2009/10 as set out at Appendix A, as amended for growth above, be recommended to 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 2009, 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 2009 be set at £59.56, 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 Council for approval.
8. That Cabinet notes that the proposed revenue budgets and capital programme will be referred to the District Wide Tenants Forum on 28 January 2009, and that any issues arising will 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 2009/10 at this meeting, and recommend a balanced budget and fully financed Capital Programme to Council for agreement on 04 February 2009.

## 2 2008/09 REVISED BUDGET

- 2.1 A review of the current HRA budget has been undertaken, resulting in an increase in net expenditure of £367K when compared with the original budget. Of this, £119K relates to approved carry forward requests from 2007/08, and a further £248K is to be transferred to the Major Repairs Reserve to help fund the medium- to long-term maintenance of the stock. Other net variances on operational activity amount to £171K, but this has been offset by a corresponding reduction in Direct Revenue Financing for the Capital Programme. 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>	
Charges for Services and Facilities	-58
Net reduction in Transfers to various Earmarked Reserves	-400
Other Minor Variances	-16
Reduced contribution to Direct Revenue Financing	-171
<b>ADVERSE VARIANCES:</b>	
Establishment of Fairpay Reserve	+50
Repairs and Maintenance	+312
Supervision and Management	+283
Additional Contribution to MRR	+248
Additional Expenditure on approved carry forward requests	+119
Forecast Change in Net Position for Year (+ Adverse / (-) Favourable) (i.e. Change Required in Contribution from Revenue Balances)	+367

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

	<b>2008/09 Original Budget £'000</b>	<b>2008/09 Revised Budget £'000</b>
Balance brought forward from 2007/08	350	717
Transfer to/(from) Balances	-	(367)
Forecast Balances as at 31 March 2009	350	350

- 2.3 Cabinet is recommended to refer the HRA Revised Budget for 2008/09 to Council for approval.

### 3 2009/10 BASE BUDGET AND FUTURE YEARS' PROJECTIONS

- 3.1 The draft budget has now been prepared for 2009/10 with projections for 2010/11 and 2011/12. 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 HRA Subsidy Determinations for 2009/10 were published on 18 December 2008. These contain a number of changes from the previous year. A key change is the introduction of Caps and Limits in respect of guideline rents (see below). The remaining changes concern the technical detail behind the calculation of the expenditure allowances and have only a very limited impact. 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 2009/10 is essentially unchanged from that used in 2008/09, though the application of certain data sets to the formulae has been modified, as has the approach to guideline rents.

- **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 1%.
- **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 2009/10, the guideline rent provides for an annual increase of 6.1%, however most of this increase has been offset by the Caps and Limits adjustment (see below).
- **Limit Rents:** Government also sets a 'Limit Rent' for each authority as part of the Subsidy Determinations. For 2008/09, this is based on an increase of 5.9%. If the Council sets its rent above this level, it will be penalised by way of Rent Rebate Subsidy Limitation.
- **Caps and Limits Adjustment:** The Government has 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), this adjustment effectively reduces the net increase in guideline rent (for subsidy purposes) to approximately 1%, and so reduces any upward pressure on the level of negative subsidy, but for 2009/10 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 1.02% per property for 2009/10.
- **Negative Subsidy Payable to Government:** The combination of the above, together with the other elements in the Subsidy calculation, produces an overall decrease of £159K in the estimated amount payable for 2009/10, when compared with the revised budget for current year. The main reason for this is that the introduction of Caps and Limits, as referred to above.

3.2.4 The following table summarises the current projections of subsidy for Lancaster to 2011/12:

	2008/09 Original Budget £'000	2008/09 Revised Budget £'000	2009/10 Budget £'000	2010/11 Projection £'000	2011/12 Projection £'000
Management Allowance	1,990	1,989	2,005	2,074	2,143
Maintenance Allowance	3,809	3,809	3,922	4,043	4,179
Major Repairs Allowance	2,278	2,278	2,304	2,371	2,427
Charges for Capital	1,779	1,779	1,793	1,794	1,794
	9,856	9,855	10,024	10,282	10,543
LESS: Guideline Rent	-11,194	-11,196	-11,206	-11,758	-12,329
Interest on Receipts	-3	-3	-3	-5	-5
Subsidy Adjustment Prior Year					
<b>Negative Subsidy Payable to Govt.</b>	<b>-1,341</b>	<b>-1,344</b>	<b>-1,185</b>	<b>-1,481</b>	<b>-1,791</b>

### 3.3 Council Rent Levels

3.3.1 As mentioned earlier, Central Government sets a 'Limit Rent' for each authority as part of the Subsidy Determinations. Further to the resolutions of Cabinet and Council last year, as part the medium term strategy for the HRA, the assumed increase in average rent for 2009/10 is 5%, which is below the maximum increase permissible within the Limit Rent, of 5.9%. This would result in an average rent of £59.56. The reasons for this assumption 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.
- Rent rises are kept to a more affordable level for tenants.

3.3.2 Furthermore, it is assumed that the 5% increase will be retained for future years.

### 3.4 Rent Collection Periods

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

### 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 £39.7K in 2009/10, £4.5K in 2010/11 and £4.5K in 2011/12. Should Cabinet wish to support some or all of the requests, then it would be proposed to adjust accordingly the budgeted contribution to the Major Repairs Reserve, which is over £2M per year (net). This would have a relatively small knock-on implication for the 30-year Business Plan (see comments later). It is highlighted that as yet, the draft budgets as set out at Appendix A do not provide for any such adjustments regarding growth proposals.

2.5.2 A proposal for recurring savings of around £33K in respect of Procurement of Materials was presented to Star Chamber on 9 December 2008. It was agreed not to take these forward at this stage, but further information would be prepared on the implications for General Fund. Hence for the purposes of this report, these savings have not been included.

### 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. One aspect that may impact on this in future, however, is the Government's review of the HRA subsidy system, to 'examine the case for change'; this is due to make its final report in Spring 2009.
- 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. This is because all other available resources have been applied to fund 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.
- 3.6.4 Cabinet may be aware that in order to fund the Business Plan, it was originally forecast that resources of approximately £12.8M would need to be set aside by 2014. Under the current budget proposals, it is forecast that balances of £10.3M will be set aside by the end of 2013/14, leaving a gap of £2.5M. This has deteriorated by £0.9M on the last reported position of £1.6M. This needs to be an area for review, as soon as workloads allow.
- 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 assumed increase 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 2009/10, the Account currently makes a contribution of £1.71M towards the funding of in-year capital expenditure, while 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 2008/09

4.1 The Council Housing Capital Programme was set at £3.28M by Council on 27 February 2008. This programme has since been updated by Cabinet for the addition of £480K of slippage on 24 July 2008.

4.2 Total savings of £371K have been identified, i.e:

- £179K on Kitchen/Bathroom Refurbishments
- £40K on External Refurbishments
- £47K on Re-wiring
- £69K on Renewal of Heaters
- £30K on Environmental /Crime Prevention Works, and
- other savings of £6K on smaller schemes.

These procurement savings are a direct result of receiving lower than estimated tenders.

4.3 The revised Capital Programme also includes £197K additional expenditure, of which £120K is for new schemes, i.e. £60K for the Non Sheltered Scheme Equipment and 60K for IT Replacement. The remaining £77K is to cover Capital Salaries Allocations from the Repairs and Maintenance Section; these have been incorporated in the Capital Programme against individual schemes. The revised 2008/09 Capital Programme, which now totals £3.586M, is attached at **Appendix E** for Members' approval.

#### 5 CAPITAL PROGRAMME 2009/10 TO 2013/14

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 this will be 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 2013/14, 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 2009/10 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 loaded into the Resource Accounting software which will provide a spend profile over a 30 year period.

- 5.5 Also as mentioned earlier, the Business Plan shows that surplus resources approaching £10.3M 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. It is intended that this exercise will be carried out during 2009/10. It will also need to have regard to information arising from the Subsidy Review mentioned earlier, however, and this may impact on timescales.

## **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 on 28 January 2009. It is intended that any views expressed by the Forum will be fed directly into Council on 04 February 2009.

## **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 options available in respect of the 2009/10 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. For example a 1% change in the rent equates to a change of around 59 pence per week per property and a £111K change in annual income for the HRA.
  - iii) Set the rent increase at a higher level, up to 5.9%, i.e. within the Limit Rent
  - iv) Set the rent increase at a level higher than 5.9%, 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.
- 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 2009/10 to 2011/12 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.

## 8 OFFICER PREFERRED OPTION AND COMMENTS

- 8.1 The Officer Preferred options are to:
- approve the 2008/09 revised Revenue Budget as set out;
  - approve the provisions, reserves and balances positions as set out;
  - set a 5% increase in average rents, and to approve the draft revenue and capital budgets as set out in the appendices, and as amended for any revenue growth supported by Cabinet, for referral on to Council as appropriate.

These are as reflected in the Member 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) No significant implications directly arising.	
<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 observations to make on this report.	
<b>MONITORING OFFICER'S COMMENTS</b> The Monitoring Officer has been consulted and has no further comments.	
<b>BACKGROUND PAPERS</b> HRA Subsidy Determinations	<b>Contact Officer: Aisha Bapu</b> <b>Telephone: 01524 582117</b> <b>E-mail: abapu@lancaster.gov.uk</b>