

CABINET

**2011/12 Budget Update –
Housing Revenue Account and Capital Programme
18 January 2011**

**Report of Head of Health and Housing 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 2011/12 and future years. It also sets out the updated Capital Programme for 2010/11 and a proposed programme to 2015/16.

Key Decision

X

Non-Key Decision

Referral from
Cabinet Member

Date Included in Forward Plan

January 2011

This report is public.

RECOMMENDATIONS OF COUNCILLOR KERR:

1. That the Housing Revenue Account Revised Budget for 2010/11, as set out at Appendix A, be recommended to Council for approval.
2. That the Housing Revenue Account Budget for 2011/12 also as set out at Appendix A, be recommended to Council for approval.
3. That Cabinet recommends to Council that the minimum level of HRA unallocated balances be retained at £350,000 from 01 April 2011, and that the Statement on Reserves and Balances be noted and referred to Council for information.
4. That average council housing rents for the year commencing 01 April 2011 be set at £64.20, representing an increase of 6.9%.
5. That at present, future year budget projections assume average rent increases of 4.74% for 2012/13 and 4.71% for 2013/14 in line with the current Subsidy Determination, and the resulting budget projections also as set out at Appendix A be referred on to Council for approval.

6. That the Capital Programme as set out at Appendix D be referred on to Council for approval.
7. That Cabinet notes that the proposed revenue budgets and capital programme have been referred to the District Wide Tenants Forum and that any issues arising will be fed back directly to Cabinet.

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 covers 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 2011/12 at this meeting, and recommend a balanced budget and fully financed Capital Programme for referral on to Council.

2 2010/11 REVISED BUDGET

- 2.1 A review of the current HRA budget has been undertaken. Whilst operationally, some net savings have been achieved, the budget has also been updated to reflect revenue financing of capital slippage and revenue budgets carried forward from last year, resulting in an overall increase in net expenditure of £173K 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.

2.2

SUMMARY OF MAIN VARIANCES ON HRA	£'000
Operational Variances: (+)Adverse / (-)Favourable	
Increase in HRA Subsidy Payable	+174
Charges for Services and Facilities	+20
Repairs and Maintenance	-85
Supervision and Management	+36
Increase in Provision for Bad Debts	+24
Rents, Rates, Taxes and Other Charges	-5
Reduced Interest on Investments	+32
Reduction in Interest Payable and Similar Charges	-90
Other Minor Variances	-6
Sub-total:	+100
Other Variances:	
Net Changes regarding Other Earmarked Reserves	-229
Increase in Contributions from Major Repairs Reserve (MRR)	-411
Increase in Direct Revenue Financing	+711
Reconciling Items	+2
Forecast Change in Net Position for Year (+ Adverse) (i.e. Increase Required in Contribution from Revenue Balances)	+173

- 2.3 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.

	2010/11 Original Budget £'000	2010/11 Revised Budget £'000
Balance brought forward from 2009/10	350	523
Transfer to/(from) Balances	-	(173)
Forecast Balances as at 31 March 2010	350	350

- 2.4 Cabinet is recommended to refer the HRA Revised Budget for 2010/11 to Council for approval.

3 2011/12 BASE BUDGET AND FUTURE YEARS' PROJECTIONS

- 3.1 The draft budget has now been prepared for 2011/12 with projections for 2012/13 and 2013/14. 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 2011/12 were published on 10 November 2010, the consultation period for which ended on 16 December. The final determination was received on 10 January 2011, which was later than expected, but despite this delay there have been no significant changes in the final determinations.
- 3.2.4 Prior to that, on 05 October Ministers announced their intention to replace the existing HRA subsidy system with a reformed, 'self-financing' system of council housing finance. Government expects to implement the reformed system through powers in the Localism Bill, but until a new system is implemented, the existing HRA subsidy system will remain in place. The HRA subsidy determinations are therefore constructed using similar parameters as those used in previous years, but it should be noted that the determination is for one year only. Ministers have confirmed that the earliest the new system of self financing will be introduced is 2012/13 and it will be dependant on enacting the legislative framework included in the Localism Bill, which would require all authorities to exit the system in one go. It is the view of

housing experts that this may be an ambitious target. Also, because there is lack of detail for the new system, at this stage future years' estimates have been based on the assumption that the subsidy determination formulae 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. The Council's Management allowance has increased by just over 2.9%, whilst the Maintenance allowance has remained the same as last year.
- **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 2011/12, the guideline rent is £64.72, which provides for an average annual increase of 6.69% 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 2011/12, the Limit Rent is £65.70, which is an increase of just over 6.27%. 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 at or 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 (i.e. £64.20), 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 2011/12 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 0.825% per property for 2011/12.
- **The Consolidated Rate of Interest (CRI):** Because of the changes in accounting for leases under international rules, the CRI has significantly reduced. This has a negative impact on the subsidy calculation and contributes to the increase in subsidy payable by £70K for 2011/12 when compared to the revised budget for current year.
- **Negative Subsidy Payable to Government:** The combination of the above, together with the other elements in the subsidy calculation, produces an overall increase of £599K in the estimated amount payable for 2011/12, when compared with the revised budget for current year. The main reasons for this are no increase in the Maintenance allowance, a very small increase in the MRA, the impact of the reduced CRI and high increase in guideline rent.

3.2.5 The following table summarises the current projections of subsidy for Lancaster to 2013/14, simply assuming that the current arrangements would continue, in the absence of any better basis at this time:

	2010/11 Original Budget £'000	2010/11 Revised Budget £'000	2011/12 Budget £'000	2012/13 Projection £'000	2013/14 Projection £'000
Management Allowance	2,048	2,049	2,108	2,161	2,213
Maintenance Allowance	3,970	3,972	3,970	4,069	4,169
Major Repairs Allowance	2,307	2,307	2,325	2,371	2,417
Charges for Capital	1,723	1,563	1,633	1,722	1,777
	10,048	9,891	10,036	10,323	10,576
LESS: Guideline Rent	-11,621	-11,622	-12,383	-13,002	-13,645
Interest on Receipts	-1	-1	-1	-1	-1
Subsidy Adjustment Prior Year		-17			
Negative Subsidy Payable to Govt.	-1,574	-1,749	-2,348	-2,680	-3,070

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 2011/12 is 6.9%, which would produce an average weekly rent of £64.20. This level of increase is:

- above 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 reasonably 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 It is assumed that increases of 4.74% in 2012/13 and 4.71% in 2013/14 will be applied for the future. 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 in accordance with the Government's proposal for rent restructuring;
- the Authority keeping to the Government's convergence target 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 2012/13 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.

3.5 Savings and Growth

- 3.5.1 No proposals have been put forward at this time, for savings or growth. In line with previous decisions of Cabinet, proposals for various aspects of the service, such as repair and maintenance, will be developed over time for consideration in future.

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. 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 B**.
- 3.6.2 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key 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. This reflects that to date, there have been no major changes in the HRA's position, although once the housing finance reforms are clarified, this could well have a major bearing on reserves and balances needed for the future. Should Members choose not to accept this advice, then this should be recorded formally in the minutes of the meeting.
- 3.6.3 The above advice is already reflected in the HRA budget proposals. 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 £15.2M would need to be set aside by 2016. Under the current budget proposals, it is forecast that balances of £7.3M will be set aside by the end of 2015/16, leaving a gap of £7.9M. This has deteriorated by £4.2M on the last reported position of £3.7M. The main reasons for the widening gap in the balances are the continuing low projections in Capital Receipts from Right to Buys and higher increases in Subsidy payable. A full revision of the business plan will be carried out once the final proposals on the review of the HRA subsidy system have been released (see also comments in s5.5 later in this report).
- 3.6.5 A draft statement on all reserves is attached at **Appendix C**. 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, the overall position regarding the HRA budget would be as set out at **Appendix A**. This shows that for

2011/12, the Account would make a contribution of £1.302M 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.

4 REVISED CAPITAL PROGRAMME 2010/11

4.1 The Council Housing Capital Programme was set at £3.885M by Council on 03 February 2010. This programme has since been updated by Cabinet for the addition of £385K of slippage on 27 July 2010.

4.2 The Capital programme has then been adjusted to incorporate procurement savings, new additions and other projected variances. Procurement savings total £99K, these are a direct result of receiving lower than estimated tenders and are as follows:

- £13K on Kitchen/Bathroom Refurbishments
- £65K on Re-Roofing/Window Renewals
- £21K on Re-Wiring

4.3 £90K for the Choice Based Lettings project has been added to the capital programme.

4.4 A further increase of £13K 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:

- £1K saving on Renewal of Heaters
- £42K saving on Environmental /Crime Prevention Works
- £19K saving on Central Control Equipment
- £35K increase to External Refurbishments
- £40K increase to Fire Precaution Works

4.5 The revised 2010/11 Capital Programme, which now totals £4.274M, is attached at **Appendix D** for Members' approval.

5 CAPITAL PROGRAMME 2011/12 TO 2015/16

5.1 Council Housing Services have a statutory duty to ensure that all of the Council Housing stock meets the Decent Homes Standard. All the Council's housing stock currently meets Decent Homes Standard, however the Council needs to ensure that this position is maintained.

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 D**. Whilst this has been extended into 2015/16, there are no other major changes proposed to balance the 5-year Programme. The Capital and Revenue Planned Maintenance Programmes identified for 2011/12 have been drawn up from the information from the 2001 and 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.
- 5.5 Also as mentioned earlier, the Business Plan shows that surplus resources approaching £7.3M are forecast to be set aside over the next five years or so in order to fund later years, and although 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 any self financing system. It is intended that this exercise will be concluded and reported to Cabinet during 2011/12 after Government makes its final housing finance proposals.

6 DETAILS OF CONSULTATION

- 6.1 The draft Revenue Budget and Capital Programme has been presented to the District Wide Tenants' Forum on 12 January 2011. Views expressed by the Forum will be fed directly into Cabinet.

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 2011/12 rent increase are to:
- i) Set the average housing rent at £64.20 i.e. an increase of 6.9% as proposed in paragraph 3.3.1. This is largely in line with the Government's Guideline Rent increase. The benefit of this option would be that the Authority would be in line with the Government's proposals to achieve convergence with no negative financial implications to the HRA. Whilst this increase may appear large, this is only because currently, average council housing rents are below those of other social housing providers.
 - ii) Set the rent increase at a minimum level of 5.1% being the RPI inflation of 4.6% +.05%. This would mean an actual average rent of £63.12, which would result in a loss of income of £210K with similar amounts for future years. With no other compensating factors from the Government to offset the loss of income, the shortfall would have to be met from savings within the HRA or funded from Reserves. This option would also considerably delay the Authority in achieving convergence, and does not support sustainability of the HRA in the longer term.

- 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 budget projections and assumed rent levels for 2012/13 to 2013/14 are to recommend those as set out, or to consider other proposals for incorporation. It should be noted that if Cabinet decides on alternative rent levels for 2011/12 or future years', these would alter the budget projections.
- 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 and its tenants. 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 2010/11 revised Revenue Budget as set out;
- approve the provisions, reserves and balances positions as set out;
- set a 6.9% increase in average rents, and to approve the draft revenue and capital budgets as set out in the appendices, 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 observation 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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