

CABINET

Budget and Policy Framework Update – Housing Revenue Account and Capital Programme 17 January 2012

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 2012/13 and future years under the new self-financing regime. It also sets out the updated Capital Programme for 2011/12 and a proposed programme to 2016/17.

Key Decision

X

Non-Key Decision

Referral from
Cabinet Member

Date Included in Forward Plan

January 2012

This report is public.

RECOMMENDATIONS OF COUNCILLOR LEYTHAM:

1. That the Housing Revenue Account Revised Budget for 2011/12, as set out at Appendix A, be recommended to Council for approval.
2. That the Housing Revenue Account Budget for 2012/13, 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 2012, 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 2012 be set at £69.22, representing an increase of 7.82% in line with the Government's assumptions in the national social rent restructuring policy.
5. That future year budget projections also be set in line with the national social rent restructuring policy with average rent increases of 4.64% for 2013/14 and 4.61% for 2014/15, and the resulting budget projections 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 2012/13 at this meeting, and recommend a balanced budget and fully financed Capital Programme for referral on to Council.

2 2011/12 REVISED BUDGET

- 2.1 A review of the current HRA budget has been undertaken. A net saving of £251K has been achieved, 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.

SUMMARY OF MAIN VARIANCES ON HRA	£'000
Operational Variances: (+)Adverse / (-)Favourable	
Decrease in HRA Subsidy Payable	-106
Repairs and Maintenance (net)	+19
Supervision and Management	-52
Increase in Depreciation and Impairment of Fixed Assets	+41
Debt Management Costs	+11
Increase in Interest Payable and Similar Charges	+46
Other minor variances	+3
Sub-total:	-38
Other Variances:	
Net Changes regarding Other Earmarked Reserves	-62
Increase in Contributions from Major Repairs Reserve (MRR)	-971
Increase in Direct Revenue Financing	+820
Forecast Surplus in Year (transferred to Revenue Balances)	-251

- 2.2 Taking account of the recommended Revised Budget outlined above, HRA Balances would be as follows.

	2011/12 Original Budget £'000	2011/12 Revised Budget £'000
Balance brought forward from 2010/11	350	452
Transfer to Balances - surplus on revised estimate		251
Forecast Balances as at 31 March 2012	350	703

- 2.3 Cabinet is recommended to refer the HRA Revised Budget for 2011/12 to Council for approval.

3 2012/13 BASE BUDGET AND FUTURE YEARS' PROJECTIONS

- 3.1 The draft budget has now been prepared for 2012/13 with projections for 2013/14 and 2014/15. The budgets are set out in line with Accounting Requirements. Specific aspects of the budget proposals are outlined in more detail below.

3.2 The HRA Self-financing Determinations

- 3.2.1 The Localism Act abolishes the present housing subsidy system and introduces the self-financing reforms from 01 April 2012. The draft HRA Self-financing Determinations were published on 21 November 2011, the consultation period for which ends on 06 January 2012. The final determination is expected to be published before the end of January 2012, but no significant changes are expected.
- 3.2.2 The 2012/13 and future year estimates are based on the draft determinations for self-financing the HRA. There are five determinations and they are as follows:

- **The Settlement Payments Determination.** This sets out the amount each authority will either pay or receive from the Government on 28 March 2012 in order to exit the current subsidy system, and the way in which the payments will be made. Lancaster will make a payment to Government of £32M.
- **The Limit on Indebtedness Determination.** This places a cap on the amount of housing debt each council may hold. The limit on indebtedness for Lancaster is £61M.
- **The HRA Subsidy Determination for the year 2011/12.** This adjusts the subsidy entitlement for this financial year in order to take account of the interest costs or savings arising from the settlement payments. These payments will be made before the end of the financial year.
- **The Item 8 Credit and Debit Amendment Determination for the year 2011/12.** This enables the appropriate charges to be made between the

HRA and the Council's General Fund to reflect the borrowing costs or savings in this financial year arising from the settlement payments.

- **The Item 8 Credit and Debit Determinations for 2012 onwards.** This provides a framework for the HRA ring-fence to continue to operate under a devolved system of funding.

3.2.3 The following table summarises the settlement payment and limit on indebtedness as set out in the draft determination:

SETTLEMENT PAYMENT	GOVERNMENT'S PROPOSAL 01 FEB 2011	DRAFT DETERMINATION 21 NOV 2011	
	£M	£M	
Self-financing Valuation	59	61	
Less HRA Subsidy CFR (notional)	(29)	(29)	
Self-financing settlement payment to Government	30	32	*
Actual HRA debt	15	15	
Add Self-financing settlement payment to Government	30	32	
Self-financing actual opening debt	45	47	
LIMIT ON INDEBTEDNESS			
Borrowing Cap	59	61	**
Less Actual Debt	45	47	
Headroom	14	14	

* payment to be made on or before 28 March 2012

** maximum amount of debt Lancaster can hold

3.3 Assumptions included in Budget Forecasts

3.3.1 The debt figures included in the 2012/13 HRA budget include charges linked to the additional £32M of borrowing anticipated to finance the HRA self-financing settlement. As a result of this, the budget has increased interest costs of £1.12M. This is based on current rates for a 25 year fixed maturity PWLB loan with a 0.7% reduction applied to reflect the saving offered by the PWLB for 'HRA self financing' loans.

3.3.2 In addition there is an assumption that an annual set aside will be made for the even repayment of debt over a 25 year period, leading to a further charge of £1.28M. These are considered to be prudent assumptions but may change depending on the cost of debt, as well as the amount and structure of the actual loans taken on. As an indication, a movement of 0.5% would see interest costs change (rise or fall) by £160K per annum.

3.3.3 In due course the above assumptions will be incorporated fully into the draft Treasury Management Strategy for consideration by Cabinet in February. Members are asked to note that although the assumptions in the budget are based on debt repayment over a 25 year period, this and other housing finance related assumptions could change in future, as Members consider future council housing strategy and

regeneration priorities. These will be the subject of future Cabinet reports in due course.

- 3.3.4 The depreciation charge for 2012/13 and future year projections are based on the uplifted associated estimates included within the Government's self-financing valuation; this gives an increase of £1.15M in 2012/13 compared to the revised budget. In turn, this depreciation is effectively transferred into the Major Repairs Reserve (MRR), which is used to help finance the capital programme. The policy regarding depreciation is another aspect that will require more detailed consideration in future years.

4 RENT SETTING POLICY

4.1 The National Social Rent Policy

- 4.1.1 The self-financing valuation assumes that councils will set their rents in line with the Government's national social rent restructuring policy. The policy assumes the following:

- guideline rents will converge with formula rents in 2015/16
- rents will increase by just above inflation year on year after 2015/16
- limits apply to individual annual rent increases - RPI+0.5%+£2 per week up to convergence, and RPI+0.5% thereafter.

- 4.1.2 The housing benefit 'limit rent' will continue to ensure that Government does not meet the associated extra benefit costs for rents that are set above policy levels.

- 4.1.3 Government does not have any plans to change the national rent policy set out above.

- 4.1.4 The draft budget figures have assumed a rent increase in line with the national social rent policy of 7.82% - Option 1 below. However this report also details an alternative rent increase of 4.75% - Option 2. This is broadly the increase previously assumed for future years.

- 4.1.5 **Appendix E** compares the rent options detailed in this report and illustrates the impact on the HRA in financial terms.

4.2 OPTION 1 - Rent increase in line with Governments National Social Rent Policy

- 4.2.1 Based on the assumptions in the policy, the Council's average weekly rent for 2012/13, is £69.22, this being an increase of 7.82%. This level of increase is:

- above the medium-term assumptions previously made, due to the RPI being significantly higher than anticipated;
- in line with the Government's expectations built into the self-financing valuation;
- required for the financial viability of the Account, and its contribution to the 30-year Business Plan;

- necessary if the Council wishes to maximise investment and service growth opportunities;
- designed by Government to keep rent rises at a reasonably affordable level for tenants;
- calculated to maximise the income to the HRA without incurring housing benefit limitation penalties.

4.2.2 Based on RPI projections of 2.5% going forward, it is assumed that increases of 4.64% in 2013/14, 4.61% in 2014/15, 4.59% in 2015/16 and 3.02% in 2016/17 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;
- 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.

4.3 **OPTION 2 - Alternative Rent Increase of 4.75% in 2012/13**

4.3.1 Cabinet may also wish to consider the option of a lower rent increase of 4.75% for 2012/13, with subsequent rent increases aligned to meet convergence at 2015/16 as set out in the Government's rent policy.

4.3.2 This level of increase results in an actual average rent of £67.25 for 2012/13, which is £1.97 lower than Option 1, however the following points should be noted:

- This option goes against the Government's expectations on rent increase and is not in line with Government's self-financing debt calculations.
- The resulting cumulative loss of income to the HRA would be £1.67M. This is equivalent to an average loss of revenue per annum of £334K.
- The Council will not be able to re-invest in capital projects and or service improvements to the same level.
- £1.67M could be the equivalent of approximately 10 new affordable homes in the district.
- To achieve convergence by 2015/16, future years' rent increase assumptions would have to be maintained at a higher increase of 4.75% up to and including year 2016/17.

4.4 Whichever rent increase option is chosen now, rent increase assumptions for 2013/14 onwards will be reviewed again, in future years' budget processes.

5 RENT COLLECTION PERIODS

- 5.1 The Council will be collecting rents over the standard 48 weeks with 4 non-collection weeks.

6 SAVINGS AND GROWTH

- 6.1 No proposals have been put forward at this time, for savings or growth.

7 RESERVES AND BALANCES

- 7.1 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**.
- 7.2 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. Whilst the fundamental changes in council housing finance pose new strategic and financial risks, the new arrangements will also remove much of the year on year uncertainties surrounding the old housing subsidy system. In effect, the new arrangements give greater autonomy.
- 7.3 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.
- 7.4 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.

8 OVERALL POSITION

- 8.1 If rents were to be set in line with the proposals made under 4.2 of this report, being an increase of 7.82%, 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 2012/13, the Account would make a contribution of £360K towards the funding of in-year capital expenditure, and a contribution to the Major Repairs Reserve (MRR) of £598K whilst meeting forecast base revenue expenditure and retaining Balances of £350K.
- 8.2 In essence the above proposals mean that compared to last year, there is a substantial reduction in the proportion of direct revenue financing required to support capital spending. This is directly attributable to the uplift applied to depreciation charges, as mentioned earlier, which has resulted in more funds being available from the Major Repairs Reserve, to help support capital.

9 REVISED CAPITAL PROGRAMME 2011/12

9.1 The Council Housing Capital Programme was set at £3.658M by Council on 02 February 2011. This programme has since been updated for the addition of slippage from last year and other minor adjustments.

9.2 The capital programme has then been adjusted to incorporate procurement savings, other projected variances and new additions.

9.3 Procurement savings total £186K, these are a direct result of receiving lower than estimated tenders and are as follows:

- £157K on External Refurbishments – Rurals, Contract 2
- £19K on Environmental / Crime Prevention Works
- £10K on Re-Wiring

9.4 A further reduction of £111K has been made to the programme to allow for expected variances as follows:

- £89K projected saving on External Refurbishments
- £65K leaseholder contributions on External Refurbishments
- £25K projected saving on Energy Efficiency Works
- £17K projected saving on Choice Based Lettings
- £25K projected saving on Bathroom / Kitchen Refurbishments
- £50K increase to Bathroom / Kitchen Refurbishments – Mainway Phase 1
- £60K increase to Disabled Adaptations

9.5 Additions of £1.030M have also been made to the capital programme for the following:

- £1M for the Invest to Save – PV solar Panels Scheme (subject to final decision)
- £30K for Total Mobile - upgrade and installation of handsets and software

9.6 The revised 2011/12 Capital Programme, which now totals £4.493M, is attached at **Appendix D** for Members' approval.

10 CAPITAL PROGRAMME 2012/13 TO 2016/17

10.1 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.

10.2 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.

10.3 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. This has been incorporated in the Council's new self-financing business plan.

- 10.4 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 2016/17, currently there are no other major changes proposed to balance the 5-year Programme. The Capital and Revenue Planned Maintenance Programmes identified for 2012/13 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.
- 10.5 However, under the new self financing system, the Council has the opportunity to consider further investment and growth in its service and stock. This could include additional works which have been identified over and above those that are included in the proposed capital and planned maintenance programmes and these include:
- Flat communal area improvements
 - Category 2 sheltered housing schemes remodelling and refurbishment
 - Increase in environmental works
 - Increase demand for adaptations
 - Renewable technologies
- 10.6 The medium term projections show an increase in the MRR balances of approximately £6M from the 01 April 2012 to the 01 April 2016.

11 **DETAILS OF CONSULTATION**

- 11.1 The draft Revenue Budget and Capital Programme has been presented to the District Wide Tenants' Forum on 11 January 2012. Views expressed by the Forum will be fed directly into Cabinet.

12 **OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)**

- 12.1 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.
- 12.2 The most obvious options available in respect of the 2012/13 rent increase are to:
- i) Set the average housing rent at £69.22 i.e. an increase of 7.82%. 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 4.75%, broadly in line with previous projections. This would mean an actual average rent of £67.25,

which would result in a total loss of income of £1.67M, over 5 years, when compared with Option 1. 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 may not support sustainability of the HRA in the longer term.

- iii) Set the rent increase different to either of the proposed options above.
- 12.3 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.
- 12.4 The options available in respect of the revenue budget projections and assumed rent levels for 2013/14 to 2014/15 are to recommend those as set out, or to consider other proposals for incorporation. It should be noted that if Cabinet does not go with option 1 and decides on option 2 or other alternative rent levels for 2012/13 or future years', these would alter the budget projections.
- 12.5 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.
- 12.6 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.

13 OFFICER PREFERRED OPTION AND COMMENTS

13.1 The Officer Preferred options are to:

- approve the 2012/13 revised Revenue Budget as set out;
- approve the provisions, reserves and balances positions as set out;
- set a 7.82% 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 s151 Officer's comments are incorporated into the report.

Formal advice regarding affordability and borrowing etc. will be included in the subsequent reports to Council, alongside Cabinet's budget proposals. .

LEGAL IMPLICATIONS

Legal Services have been consulted.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

HRA Subsidy Determinations

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