

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Overview & Scrutiny Committee **DATE:** 3<sup>rd</sup> March 2011

**CONTACT OFFICER:** Neil Aves: Asst. Director Housing Services

**(For all enquiries)** (01753) 875527

**WARD(S):** All

### **PART I** **FOR COMMENT AND CONSIDERATION**

#### **HOUSING REVENUE ACCOUNT (HRA) BUDGET ADOPTION 2011-2012**

##### **1 Purpose of Report**

This report was presented to Cabinet on the 7<sup>th</sup> February and is brought before O&S Committee retrospectively for consideration. The late release of the Government's final subsidy determination meant that the report was not available in time for the previous meeting of the Committee.

To propose the Council's Housing Revenue Account (HRA) budget for 2011-2012 and to highlight arrangements to fund the operation now that the Council has returned to in-house service provision following the termination of the contract with People 1<sup>st</sup> (Slough) Ltd.

##### **2 Recommendation(s)/Proposed Action**

The Committee is requested to note the recommendations that were approved by Cabinet at its meeting on 7<sup>th</sup> February, 2011.

- (a) That the Housing Revenue Account Budget for 2011/2012 be approved.
- (b) That the growth items, identified in paragraphs 5.8 & 5.13, amounting to £303,000 in 2011/12 be approved.
- (c) That the Cabinet notes the medium term sustainability of the Housing Revenue Account Business Plan.

##### **3 Community Strategy Priorities–**

- **Celebrating Diversity, Enabling inclusion**
- **Adding years to Life and Life to years**
- **Being Safe, Feeling Safe**
- **A Cleaner, Greener place to live, Work and Play**
- **Prosperity for All**

By adopting a prudent medium term financial strategy for the Housing Revenue Account the Council has created a business plan which sustains council housing for the foreseeable future. By reducing expenditure, delivering savings through service restructures and reinvesting in areas of concern for tenants, residents and members alike, the Council's housing services can contribute to each of the community strategy priorities.

#### 4 **Other Implications**

##### (a) Financial

The proposed HRA budget was prepared in accordance with CIPFA guidance and accounting best practice. Budget proposals will ensure balances are maintained at an appropriate level and adequate funding is available to deliver an effective housing service in accordance with the HRA Business Plan

##### (b) Risk Management

Budgets have been constructed in accordance with CIPFA accounting rules and the medium term HRA business plan uses a nationally accredited business model to predict income and expenditure in future years.

Estimates of income particularly from shop and garage rents have been reviewed in the light of the current economic climate but estimates of key inflation indices over the next year may be inaccurate leading to unexpected budget pressures. However the HRA currently holds sufficient balances to manage such issues should they arise.

Longer term there is uncertainty regarding the future funding of council housing while the Government undertakes a review of the whole housing subsidy regime. Proposals for this are likely to be released within the next fortnight and further reports will be brought before members in due course.

##### (c) Human Rights Act and Other Legal Implications

There are no legal or human rights implications to this report.

##### (d) Race Relations Amendments Act Implications

This report relates to all tenants and leaseholders occupying current or former council homes. Rent fees and charges are set in accordance with government guidance and relate closely to each persons individual circumstances and usage. Where individuals are of limited means benefit advice, debt and welfare counselling is available and accordingly the proposal will not disproportionately affect any section of the community as defined under the above legislation.

#### 5 **Supporting Information**

##### **HRA Budget Estimates 2010-11(current year)**

- 5.1 The Council has a legal obligation to set a balanced HRA budget for 2011/12 to ensure that affordable homes continue to be provided and managed for the residents of Slough. Whilst, if balances are available, an 'in year' deficit can be budgeted for, overall there must not be a deficit on the account. The balance carried on the Housing Revenue Account must be set at a prudent level, and based upon the stock size within Slough a prudent level is considered be £1.2 million. The proposed budget for 2011-2012 is shown in Appendix 1 and includes a forecast surplus of £0.087m for the year after a contribution of £1.93m to capital funding.
- 5.2 The Housing Revenue Account (HRA) estimates have been revised on the basis of an analysis of expenditure and income to date and projections forward for the remainder

of the year undertaken. The opening balances on the HRA as at 1 April 2010 were £9.0m which compares to an estimated surplus this time last year, when the budget was set of £8.15m. Additionally an in year surplus of £0.153m is projected for 2010/11 compared to £0.213m in the budget.

- 5.3 The Surplus for 2010/11 is due mainly to £1.215m management fee returned from People 1<sup>st</sup> and a technical accounting adjustment of £0.793m in respect of Depreciation. These gains are offset by £1.42m of revenue contributions to the capital programme, £0.4m of planned maintenance and other minor savings of £0.035m
- 5.4 It is anticipated that £1m of the revenue contributions to capital will be held in the Capital Expenditure Reserve Account as a contingency for the Decent Homes project expected to be completed in December 2012.
- 5.5 Planned maintenance activities include Asbestos removal which is currently charged to the capital programme and in line with component accounting guidelines is now charged to the Housing repairs account.
- 5.6 The Housing Futures project which oversaw the closedown of People 1<sup>st</sup> and the return to in-house service provision maintained accurate cost projections.

#### **Housing Revenue Account Base Budget 2011-2012**

- 5.7 Elsewhere on the agenda Members will note a report regarding the annual rent increase for Council housing of approximately 6.8%. Unlike in previous years, the final subsidy determination has also seen management and maintenance allowances increased by 7.9% and 3.9% respectively. This is higher than anticipated this time last year and represents real additional cash into the housing service
- 5.8 For the coming year, HRA expenditure has been revised to take account of the new service structure and the opportunity has been taken to reconstruct the cost centre hierarchy so that individual service managers have clear responsibility for expenditure and budgets within their area. This should ensure greater transparency on service costs and tighter budget management which will remain of paramount importance. Allowances have been made for inflationary pressures but not for annual pay awards as these will not be forthcoming for at least the next three years. However a transformation fund of £0.25m has been established in the budget to cover contingencies and interim solutions for the new service.
- 5.9 Provision has been made for higher than RPI increases in energy costs compared to the current contracted prices. The housing repairs budget has been increased by 4.5% to allow for the inflationary increase of RPIx to be applied in April 2011. Central services costs have been included based on draft proposals which will be finalised in February 2011. In the current economic climate it is difficult to make an accurate estimate of inflation and the cost of central services and these may need to be amended in a later report if they prove to be significantly different to the final figures.
- 5.10 Cabinet on the 24<sup>th</sup> January 2011 endorsed the use of £2.85M of HRA balances to maintain the current level of investment in homes and to complete the decent homes project in accordance with the government target of December 2012. The capital programme has subsequently been reviewed and £0.7m of expenditure has been reclassified as planned maintenance, revenue funded and this is shown in the housing repairs account estimates. Therefore a £2.1m contribution is required from

HRA balances of which £0.2m will be transferred from the Capital Expenditure Reserve Account created in 2010/11.

- 5.11 In proposing the annual Housing Revenue Account budget this year, the council has received a favourable settlement and rather than identify cuts and efficiency savings this report can instead concentrate on consolidating service provision following the conclusion of the council's option appraisal to determine the future provision of housing services. Regular reports to the Neighbourhood & Renewal Scrutiny Panel have identified the progress made in the restructure and design of the new integrated service and once this 'goes live' on the 1<sup>st</sup> April 2011 officers will continue to work with tenant representatives and members to establish a new threshold for the delivery of quality housing services. It may be that in the course of these deliberations budgets and expenditure in key areas will need to be amended to better reflect tenant aspirations. Accordingly, further reports may be brought before members in year to consider options for funding further service enhancements.
- 5.12 The Housing Futures project initially projected to save around £200,000 following the reintroduction of People 1<sup>st</sup> staff into the Council. As the redeployment and redundancy process is yet to complete, the final calculation of savings achieved is still some way off but projections to date suggest that it will be in excess of the original proposal.
- 5.13 Of the savings achieved a significant sum has already been reinvested within the Tenant Participation service in response to the requirements of the Tenant Services Authority (TSA) and the draft Tenant Participation Strategy which will be brought to this Cabinet in March. For one off set up costs, facilitation and training of tenant and leaseholder representatives the base budget for 2011-12 includes a growth bid of £18,000 for one off set up costs and £35,000 base budget adjustment for annual running costs. The operational budget of £35,000 equates to just £5 per household and must represent good value if the project is successful and tenants become engaged and help to plan and regulate the new service.

### **HRA Business Plan Projections**

- 5.14 The HRA has been projected over 30 years in line with government guidance. However, due to the nature of housing subsidy and constant changes to the system, only the short to medium term can be treated with any degree of certainty. The projections should be looked at in light of the current national review of council house funding currently being undertaken by CLG.
- 5.15 In 2008 the HRA projections were showing a HRA in serious decline with in year deficits and declining balances. During the 2008/09 budget process a number of reductions in expenditure were made to ensure that the HRA was sustainable in the short to medium term. In addition it was identified that additional savings would be required in future years.
- 5.16 It can be seen from Appendix 2 that the latest projections for the HRA are of a more healthy nature. In addition Planned Maintenance activity, including the capital programme, has been reworked in the model based on Asset Management projections. The recommendations above regarding the base budgets and growth items have been modelled and Appendix 2 shows the effect of these recommendations.

- 5.17 The HRA is projected to generate a moderate annual surplus until at least 2024/25 based on the current Housing Subsidy regime and latest Asset Management information.
- 5.18 The Business Plan projections give the council a period of relative stability in the medium term with moderate in year surpluses and healthy balances. This should allow the council to deal with any unknown or unexpected challenges that may occur in the coming years including the proposed changes to the HRA subsidy system and the re-procurement of housing management services from December 2010. If anything of a catastrophic nature should occur the council will have a good level of reserves to deal with the problem.
- 5.19 Right to Buy sales continue to diminish and based upon current performance sales this year will be in single figures. Compared to the original projections of 118 sales per year when the bid was submitted for Decent Homes funding this represents a significant increase in year on year rental income however this is offset by the demands to improve greater numbers of properties to meet the decency standard.

## 6 **Comments of Other Committees**

The late release of the final subsidy determination and the scale of the budget transition from old to new structures meant that this report was not presented to the Overview & Scrutiny Committee on the 27<sup>th</sup> January 2011 and would have been anticipated.

## 7 **Conclusion**

Changes to the way that government funds council housing together with the challenging but timely savings targets adopted over the previous two years have meant that the HRA Business Plan is now sustainable into the medium term and has sufficient balances to allow continued levels of expenditure, introduced two years ago to clear historic backlogs of under investment. Officers await the Government's proposals on subsidy reform and self financing which are expected to be released imminently. Since the initial consultation there has been a change of government but if the proposals remain broadly as drafted then the proposals will be hugely beneficial to the Council.

## 8 **Appendices**

1 - HRA Budget 2010/11 and 2011/12

2 - HRA Business Plan to 2024/25

## 9 **Background Papers**

'1' -

'2' -

	2010-11		2011-12
	REVISED BUDGET	PROBABLE OUTTURN	BASE BUDGET
<b><u>INCOME</u></b>			
Rent Income - Dwellings	(26,711,380)	(26,625,251)	(28,463,600)
Rent Income - Non Dwellings	(1,673,400)	(1,779,121)	(1,769,700)
Charges for Services & Facilities - Tenants	(1,329,510)	(1,313,776)	(1,390,600)
Charges for Services & Facilities - Leaseholder	(514,000)	(570,000)	(595,000)
Other income	(127,820)	(127,114)	(130,800)
	<b>(30,356,110)</b>	<b>(30,415,263)</b>	<b>(32,349,700)</b>
<b><u>EXPENDITURE</u></b>			
Repairs & Maintenance	6,922,540	7,322,540	7,711,000
Supervision & Management	6,250,710	5,081,170	5,620,000
Special Services	1,943,460	2,092,960	2,034,600
Housing Subsidy	6,251,020	6,415,471	7,468,800
Depreciation & Impairment of Fixed Assets	5,717,000	4,924,400	5,020,400
HRA share of Corporate & Democratic Core	211,510	211,510	211,500
Rents, Rates, Taxes & Other Charges	173,020	173,020	169,300
Increase/Decrease in Provision for Doubtful Debts	100,000	100,000	100,000
Debt Management costs	60,000	57,400	59,300
	<b>27,629,260</b>	<b>26,378,471</b>	<b>28,394,900</b>
<b><u>NET COST OF SERVICE</u></b>	<b>(2,726,850)</b>	<b>(4,036,792)</b>	<b>(3,954,800)</b>
Capital Charges	2,263,430	2,463,630	1,937,800
Revenue Contributions to Capital	250,000	1,420,000	1,930,000
<b><u>(Surplus) / Deficit</u></b>	<b>(213,420)</b>	<b>(153,162)</b>	<b>(87,000)</b>
<b>Reserves</b>			
Balance - Brought Forward	(8,151,539)	(9,007,506)	(9,160,700)
<b>Balance - Carried Forward</b>	<b>(8,364,959)</b>	<b>(9,160,668)</b>	<b>(9,247,700)</b>

## HRA Business Plan

## Appendix 2

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	2010.11	2011.12	2012.13	2013.14	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25
	Estimate	Budget				-									
Dwelling rent income	-26,625	-28,464	-30,300	-33,102	-33,903	34,723	-35,562	-36,423	-37,305	-38,210	-39,136	-40,083	-41,053	-42,047	-43,066
Service charges	-1,884	-1,986	-1,792	-1,794	-1,796	-1,799	-1,801	-1,803	-1,805	-1,807	-1,809	-1,811	-1,813	-1,815	-1,817
Non dwelling rents	-1,779	-1,770	-1,069	-1,090	-1,112	-1,134	-1,157	-1,180	-1,204	-1,228	-1,253	-1,278	-1,304	-1,330	-1,357
Other Income	-127	-131	-134	-138	-141	-145	-148	-152	-156	-160	-164	-168	-172	-176	-181
<b>Income</b>	<b>-30,415</b>	<b>-32,351</b>	<b>-33,295</b>	<b>-36,124</b>	<b>-36,952</b>	<b>37,800</b>	<b>-38,668</b>	<b>-39,558</b>	<b>-40,470</b>	<b>-41,405</b>	<b>-42,362</b>	<b>-43,340</b>	<b>-44,342</b>	<b>-45,369</b>	<b>-46,421</b>
Repairs & Maintenance	7,323	7,711	8,673	9,658	9,643	9,116	9,157	9,198	9,428	9,663	9,707	9,751	9,795	10,039	10,290
Supervision & Management	5,523	6,061	6,213	6,368	6,271	6,171	6,326	6,484	6,646	6,812	6,982	7,157	7,336	7,519	7,707
Special Services	2,093	2,035	2,086	2,138	2,191	2,246	2,302	2,360	2,419	2,479	2,541	2,605	2,670	2,737	2,805
Housing Subsidy	6,415	7,469	9,454	10,987	11,967	12,972	13,347	13,731	14,127	14,531	14,946	15,496	15,930	16,373	16,829
Bad Debt Provision	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Depreciation	4,924	5,020	5,061	5,154	5,249	5,346	5,444	5,544	5,646	5,750	5,856	5,964	6,074	6,185	6,299
<b>Expenditure</b>	<b>26,378</b>	<b>28,396</b>	<b>31,586</b>	<b>34,405</b>	<b>35,421</b>	<b>35,951</b>	<b>36,676</b>	<b>37,417</b>	<b>38,366</b>	<b>39,336</b>	<b>40,133</b>	<b>41,072</b>	<b>41,904</b>	<b>42,953</b>	<b>44,031</b>
<b>Net Cost of Service</b>	<b>-4,037</b>	<b>-3,955</b>	<b>-1,710</b>	<b>-1,719</b>	<b>-1,531</b>	<b>-1,849</b>	<b>-1,992</b>	<b>-2,141</b>	<b>-2,104</b>	<b>-2,069</b>	<b>-2,229</b>	<b>-2,267</b>	<b>-2,438</b>	<b>-2,415</b>	<b>-2,390</b>
Interest charges	2,464	1,938	1,297	1,298	1,299	1,300	1,301	1,302	1,303	1,304	1,305	1,178	1,179	1,180	1,181
RCCO	1,420	1,930	0	0	0	500	600	750	750	750	800	1,000	1,150	1,150	1,150
<b>(Surplus) / Deficit</b>	<b>-153</b>	<b>-87</b>	<b>-413</b>	<b>-421</b>	<b>-232</b>	<b>-49</b>	<b>-91</b>	<b>-89</b>	<b>-51</b>	<b>-15</b>	<b>-124</b>	<b>-89</b>	<b>-109</b>	<b>-85</b>	<b>-59</b>
<b>Reserves</b>															
Brought forward	9,008	9,161	9,248	9,661	10,081	10,313	10,362	10,454	10,543	10,594	10,608	10,732	10,822	10,930	11,015
<b>Carried forward</b>	<b>9,161</b>	<b>9,248</b>	<b>9,661</b>	<b>10,081</b>	<b>10,313</b>	<b>10,362</b>	<b>10,454</b>	<b>10,543</b>	<b>10,594</b>	<b>10,608</b>	<b>10,732</b>	<b>10,822</b>	<b>10,930</b>	<b>11,015</b>	<b>11,075</b>