

**SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Overview & Scrutiny Committee **DATE:** 7<sup>th</sup> February 2008  
**CONTACT OFFICER:** Neil Aves, Asst. Director Housing - 01753 875527  
**WARD(S):** All  
**PORTFOLIO:** Housing.

**PART I**  
**FOR CONSIDERATION & COMMENT**

**HOUSING REVENUE ACCOUNT (HRA) BUDGET 2008-2009**

**1 Purpose of Report**

To propose the Council's Housing Revenue Account (HRA) budget for 2008-2009 and from within that sum to agree the Management Fee to be paid to People 1<sup>st</sup> (Slough) Ltd. who continue to provide the housing management function on behalf of the Council.

Owing to changes in the Government's housing subsidy system which have adversely impacted upon the level of available resources this report also identifies the actions to be undertaken to maintain a balanced HRA Business Plan over the medium term to enable the continued delivery of the Decent Homes Improvement Programme.

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

2.1 That Overview & Scrutiny Committee provide their comments and observations prior to the following recommendations being placed before Cabinet

2.2 Cabinet is requested to resolve :-

- a) That the Housing Revenue Account Budget for 2008/2009 be approved. (appendix 1 refers)
- b) That the Management Fee payable to People 1st (Slough) during 2008/2009 be approved.(appendix 2 refers)
- c) That the HRA Business Plan to 2012 be approved (appendix 3 refers),
- d) That Cabinet notes the level of savings to be achieved by People 1<sup>st</sup> Housing Services and Interserve in 2008/09 and 2009/10 (appendix 4 refers)
- e) That Cabinet notes the People 1<sup>st</sup> action plan to deliver the required efficiencies and savings (to follow)
- f) That the Cabinet notes the medium term sustainability of the Housing Revenue Account Business Plan

### 3 **Key Priorities – Taking Pride in Slough and Making a Difference to Communities and our Environment**

#### **Priority 1 – Creating safe, environmentally friendly and sustainable neighbourhoods.**

##### *Aims*

1.1 *Deliver cleaner and safer neighbourhoods.*

The approval of the proposed HRA Budget for 2008-2009 will allow the Council and People 1<sup>st</sup> (Slough) to continue to work in partnership to allocate increased levels of investment into the Council's homes and estates.

#### **Priority 2 – Improving lives for those in need and creating thriving communities.**

##### *Aims*

2.3 Provide affordable, decent and safe homes.

Establishment of a sustainable HRA Business Plan and balanced HRA Budget will allow the Council and People 1<sup>st</sup> (Slough) to continue to provide, manage and improve the affordable housing stock.

#### **Priority 4 – Ensuring excellence in customer services**

##### *Aims*

4.1 Deliver excellent customer focused services in an excellent customer environment

The proposed HRA Budget for 2008-2009 will allow People 1<sup>st</sup> (Slough) to continue to enhance the quality of front line services provided on behalf of the Council and to the residents of Slough.

### 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 both directly and through the People 1<sup>st</sup> (Slough) ALMO, in accordance with the HRA Business Plan

#### **(b) Human Rights Act and Other Legal Implications**

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

## **5.0 Supporting Information**

### **HOUSING REVENUE ACCOUNT BUDGET 2007-2008**

#### **Balancing the HRA Business Plan and Budget**

- 5.1 The Council has a legal obligation to set a balanced HRA budget for 2008/09 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 to be £1.2 million. The proposed budget for 2008-2009 is shown at Appendix 1
- 5.2 During the budget setting process twelve months ago, assuming expenditure was in line with budget projections the HRA budget would have carried forward balances into 2008/09 of £3.2 million. This figure is well above the required minimum but recognised that due to the Government's subsidy system these balances would be slowly eroded until 2012 when the HRA would no longer be sustainable.
- 5.3 End of year projections for two months time suggest that actual balances carried forward will be £3.1 million however recent changes have meant that while the HRA budget was previously sustainable until 2011/12, if action is not taken to reduce expenditure, the budget moves into deficit in 2009/10. Members should be aware that this pressure is entirely due to the negative subsidy paid annually to the Government rather than because of any increased expenditure. In 2007/08 the council paid £6.5 million in subsidy to the government and last year's balanced HRA budget was based upon the assumption that in 2008/09, by applying the same formula, this payment would increase to £7.8 million. Changes to the subsidy calculation have meant that the true figure of subsidy payment will be some £900,000 greater at £8.7 million
- 5.4 As mentioned previously the Council has a statutory duty to sustain a balanced HRA budget and business plan and without one the future delivery of the Decent Homes programme would be in jeopardy. The current decent homes delivery programme will be completed by 2012 and in order to ensure that the account remains sustainable until this point the Council in conjunction with People 1st must identify savings within the Management Fee, the managed budgets and the HRA funded services retained by the council.
- 5.5 Addressing this challenge has necessitated the cancellation of some Service Level Agreements (SLA's) between People 1st and the Council as the organisation concentrates solely on its core business. Additionally, it has been agreed that all remaining Service Level Agreements and all central recharges to the Housing Revenue Account will be increased in line with the inflationary amounts given by the Government in the Management & Maintenance Allowances. This means that costs imposed upon the HRA are capped at 1.61%. While this assists in maintaining a viable HRA it is of course recognised that this places a further burden on the council's general fund which is itself under sustained pressure.
- 5.6 In order to ensure that the HRA is sustainable in the medium term, the Council has offered People 1st a reduced management fee within which to operate (appendix 2 refers). People 1st have in turn to identify savings of £225,000 for 2008/09 and a further £300,000 in 2009/10. These savings will be subject to ongoing consultation

and have been discussed at the Tenant's Panel, with the Executive of the Fed and both the Management Board and Finance sub-committee of People 1st.

- 5.7 People 1st is a limited company and as such is required to remain both solvent and financially viable. Because of the scale of the required savings the organisation is required to operate within a management fee of £5,760,350 as compared to the current year where the agreed fee is £523,940 higher at £6,284,290. People 1st (Slough) Ltd is wholly owned by Slough Borough Council which has ultimate liability should the company fail to achieve the required savings. In order to satisfy members that the Council's interests are being safeguarded, People 1st will be required to provide a costed action plan to demonstrate how the savings target will be achieved. The Council is asking for the action plan to be adopted by the Finance Sub-committee of People 1st on the 12th February 2008 and reported to Council at its budget setting meeting on the 21st February.
- 5.8 In addition to the savings identified on the action plan, from 2008/9, the long standing discrepancy in the allocation of some of the Interserve charges is being addressed, and the charge to the Housing Revenue Account from the General Fund will be removed providing a saving of £250,000 per annum..
- 5.9 Finally, discussions have been taking place with Interserve, provider of the Council's housing repair service resulting in proposals to reduce expenditure on repairs by £546,000 within the coming year. This is an extremely challenging target as this cut represents a base budget adjustment which means that budgets are reduced in perpetuity rather than as a 'one off'. Additionally there will be a requirement to save a further £200,000 from within the repairs budget during 2009/10.

## **6.0 Additional Housing Revenue Account Budget Information**

### **INCOME**

- Rents – Central Government's policy objectives expect the harmonisation of average local authority and average Registered Social Landlords' rents by 2012. The key to achieving this is by applying a common formula which is explained more fully in a report elsewhere on the Cabinet agenda. The rent for each individual property is, therefore, set in accordance with the prescribed Government formula that takes into account property valuations and local average earnings. It is for councils to move actual rents towards this formula rent over a period of ten years, which commenced in 2002/03. Within this framework individual property rents may go up or down, dependant on the valuation and existing rent level, but only within the limits of inflation (3.9%), plus ½%, plus £2 per week. Rent harmonisation has meant that all properties have rents set according to a formula, accordingly individual rents are controlled through the application of a number of different variables. However, for illustrative purposes only the average rent across the entire housing stock in 2008-2009 will be £76.10, an increase of 6.22%.
- Non Dwelling Rents – The bulk of this income is derived from shop and garage rents. Shop leases are reviewed on renewal, garage rents are increased by RPI on an annual basis.
- Charges For Services & Facilities – This includes tenants and leaseholders service charges. The recommendation is to increase service charges, in accordance with Government guidelines at RPI + ½%.

## **EXPENDITURE**

- Management – The budget includes People 1<sup>st</sup> Management Fee which is set at £5,760,350 for 2008/9.
- Capital Charges and Depreciation – (£5,196,000) This equates to the amount of Major Repairs Allowance (MRA) the Council receives from Central Government and consequently has a cost neutral effect on the HRA. The amount payable is reviewed annually.
- Negative Subsidy Payable – (£8,799,000) This represents the net amount of subsidy paid to Central Government based on a 'Notional Housing Revenue Account'. The Government takes what it believes a local authority needs to spend on management, maintenance, major repairs and capital financing costs, and deducts from this the income they believe an authority should raise in rent and earned interest. As this results in a negative amount the authority are required to pay this to the Government. This is then used by the Government to fund positive subsidy for other local authorities and other Government housing budgets
- Working Balances – The budget proposals contained within the report produce a projected working balance at 31 March 2009 of £3,779,000 which is considered a prudent level.

### **7.0 Comments of Other Committees**

7.1 In addition to being considered by the People 1<sup>st</sup> Management Board and its Finance Sub-committee, this report and recommendations on rent setting will be presented to the meeting of the Fed Executive (Slough Federation of Tenant and Resident Associations) on Tuesday 5<sup>th</sup>. February 2008 and of the full Fed body on Tuesday 19<sup>th</sup> February. Any formal comments received from these organisations will be reported to Council where this report will be formally adopted.

### **8.0 Conclusion**

8.1 This report proposes the adoption of the annual Housing Revenue Account Budget and People 1<sup>st</sup> Management Fee and further identifies the necessary savings to be achieved to ensure that balances remain above the prudent level for the medium term.

### **9.0 Appendices Attached**

Appendix 1 - Housing Revenue Account Budget 2008-2009

Appendix 2 – People 1<sup>st</sup> Management Fee

Appendix 3 - HRA Business Plan Summary 2007 – 2014

Appendix 4 – Schedule of Savings to be Achieved

### **10.0 Background Papers**

'1' -2003-2010 HRA Business Plan

**HOUSING REVENUE ACCOUNT**

	<b>BUDGET 2007-08 £</b>	<b>BUDGET 2008/09 £</b>
<b><u>INCOME</u></b>		
Dwellings Gross Rental Income	24,017,960	25,472,840
Non Dwelling Rents	1,420,550	1,420,550
Charges For Services and Facilities	1,482,860	1,455,750
Contribution Towards Expenditure	23,870	23,870
	<b>26,945,240</b>	<b>28,373,010</b>
<b><u>EXPENDITURE</u></b>		
Management	9,638,460	8,788,190
Housing Repairs Account Contribution	5,886,470	5,546,000
Rents, Rates, Taxes and Other Charges	13,160	13,160
Capital Charges - Interest	18,293,710	0
Capital Charges - Depreciation	4,722,060	4,754,470
Government Subsidies	6,564,570	8,680,020
Housing Benefits Contribution	0	0
Increase in Provision for Bad/Doubtful Debts	100,000	100,000
	<b>45,218,430</b>	<b>27,881,840</b>
<b>NET COST OF SERVICE</b>	<b>18,273,190</b>	<b>-491,170</b>
<b><u>ASSET MANAGEMENT REVENUE ACCOUNT</u></b>		
Pensions Interest Cost	0	0
Expected Return on Pension Assets	0	0
	-	
Capital Charges - Interest	18,293,710	0
Amortised Premiums & Discounts	1,372,270	1,372,270
Interest Receivable	-791,350	-1,226,900
<b>NET OPERATING EXPENDITURE</b>	<b>560,400</b>	<b>-345,800</b>
<b><u>APPROPRIATIONS</u></b>		
Transfer to/from Pension Reserve	-14,840	-50,000
Transfer to/from Major Repairs Reserve	-16,470	-16,470
Revenue Contributions To Capital	21,000	0
<b>SURPLUS(-)\DEFICIT</b>	<b>550,090</b>	<b>-412,270</b>
<b><u>WORKING BALANCES</u></b>		
Brought Forward	1,841,000	1,290,910
Surplus/Deficit(-)	-550,090	-412,270
<b>Balance C/Fwd</b>	<b>1,290,910</b>	<b>878,640</b>

**People 1st Management Fee**

<b>Housing Management</b>		<b>£</b>
J123	Housing Management	183,320
J125	Housing Management - East	177,100
J126	Housing Management - West	362,740
J203	Rent Recovery	275,210
J010	Supported Housing	1,032,660
J016	Caretaking	703,770
		<b><u>2,734,800</u></b>

**Customer Services and Community Participation**

J028	Tenant Participation	158,540
J204	Customer Services	0
		<b><u>158,540</u></b>

**Finance & Support**

J150	Leasehold Administration	40,320
J202	Right To Buy	49,210
J208	Rent Accounting	160,420
J252	Finance Team	365,990
J254	Performance Management	184,010
J255	CEO	-170,120
J360	Communications & Publicity	126,070
J361	Management Board	51,100
J370	Management & Support	964,160
J371	Val/Com Management	75,000
J372	IT	336,460
J373	HR/Training	125,580
		<b><u>2,308,200</u></b>

**Assets and Contracts**

J380	Voids Team	88,840
J450	Assets & Contracts Team	314,600
J455	Decent Homes Project Team	155,370
		<b><u>558,810</u></b>

**TOTAL MANAGEMENT FEE****5,760,350****Managed Budgets**

J015	Managed Budgets	573,880
J350	S&M General	2,338,810
J214	Utilities	364,960
		<b><u>3,277,650</u></b>

Savings to be achieved

**0**

**APPENDIX 3****HRA BUSINESS PLAN SHOWING MEDIUM TERM SUSTAINABILITY TO 2011-12**

Year	Rents & Income	Management	Subsidy	Repairs	Depreciation	Capital Charges	RCCO	Total Expenditure	In Year Surplus (-) /Deficit	C/Fwd
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>2006/07</b>	-26,750	9,325	6,219	5,771	4,657	652	214	26,838	88	-2,948
<b>2007/08</b>	-27,591	9,780	6,515	5,886	4,721	531	0	27,433	-158	-3,106
<b>2008/09</b>	-28,916	8,862	8,799	5,546	4,738	458	0	28,403	-513	-3,619
<b>2009/10</b>	-30,162	8,781	10,445	5,540	4,812	443	0	30,021	-141	-3,760
<b>2010/11</b>	-31,438	8,998	12,187	5,734	4,895	442	0	32,256	818	-2,942
<b>2011/12</b>	-32,744	9,221	14,003	5,935	4,978	462	0	34,599	1,855	-1,087
<b>2012/13</b>	-33,992	9,449	14,685	6,143	5,063	522	0	35,862	1,870	783
<b>2013/14</b>	-35,266	9,683	15,376	6,358	5,149	631	0	37,197	1,931	2,714

**SCHEDULE OF SAVINGS TO BE ACHIEVED**

	YEAR	
	2008/09	2009/10
BUDGET AREA	£	£
HRA Retained Services	145,000	0
HRA/GF recharges	250,000	0
Interserve repairs contract	546,000	200,000
Savings on People 1 <sup>st</sup> Management fee	225,000	300,000
Savings brought forward from 07/08	167,000	0
Savings within People 1 <sup>st</sup> to fund inflation, pay award and incremental drift	300,000	0
<b>TOTAL SAVING TO BE ACHIEVED</b>	<b>£1,633,000</b>	<b>£500,000</b>