

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Cabinet **DATE:** 7<sup>th</sup> March 2012  
**CONTACT OFFICER:** Neil Aves: Asst. Director Housing Services  
**(For all enquiries)** (01753) 875527  
**WARD(S):** All  
**PORTFOLIO:** Cllr J Swindlehurst - Neighbourhoods and Renewal

### **PART I** **KEY DECISION**

#### **HOUSING REVENUE ACCOUNT (HRA) BUDGET ADOPTION 2012-2013**

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

To propose the Council's Housing Revenue Account (HRA) budget for 2012-2013 and to highlight arrangements to fund the operation after the impending introduction of Self-Financing is completed at the end of this financial year.

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

The Cabinet is requested to resolve that:

- a) The Housing Revenue Account Budget for 2012/2013 be approved. (Paragraph 5.6 and appendix 1 refers)
- b) The growth items, identified in paragraphs 5.5 & 5.8 amounting to £245,000 for supervision and management and £950,000 for Repairs & maintenance be approved.
- c) The revised medium term capital programme be approved (Paragraph 5.11)
- d) 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 2011-12(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 and the introduction of Self-financing this has been revised from £1.2m to £4m – £6m due to the increased level of risk following the take on of debt.

- 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 2011 were £9.5m and a surplus of £0.5m is projected for the year giving a balance to be carried forward of £10m. This surplus is after Revenue contributions to the capital programme of £1.6m.
- 5.3 The forecast surplus is due mainly to £0.3m planned maintenance activities which will be carried out in 2012/13 and £0.3m of additional supervision and management savings following the introduction of Housing services in 2010/11 to replace People 1<sup>st</sup>. Rent income reduced by £0.1m due to planned demolitions on the Britwell estate which were not included in the business plan last year.
- 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 for example Asbestos removal, fencing which are currently charged to the capital programme and in line with component accounting guidelines are now charged to the Housing repairs account.

### **Housing Revenue Account Base Budget 2012-2013**

- 5.6 The Localism bill gained Royal Assent in November 2011 and this included a revised system of accounting for the Housing Revenue Account known as self – financing. Slough Borough Council will take on additional debt of £137m in March 2012, transferred from central Government, and the existing subsidy system will be disbanded at that time. There will continue to be central guidelines and policies that will need to be followed e.g. rent restructuring but all income and expenditure will be managed locally from 28 March 2012 subject to sale of council house regulations which are currently in consultation. A deficit of £1.5m is projected for the year after allowing for £6m as the estimated cost of additional homes on the Britwell estate.
- 5.7 Rent restructuring is planned to continue until convergence which is estimated to be in 2015/16 however due to limit rent restrictions this is likely to take until 2020/21 in Slough. The policy of setting target rent at tenancy change will be monitored as it may bring this completion date forward.
- 5.8 HRA expenditure has been revised to take account of the new service structure. Allowances have been made for inflationary pressures but not for annual pay awards as these will not be forthcoming for at least the next two years. Planned maintenance activities as per paragraph 5.5 above increase the repairs expenditure budget by £950,000.

5.9 Other growth items of £245,000 are;

Additional Tenant Participation Officer, increasing the compliment to 3 to work closely with the 3 Housing Area teams to promote and support community participation	£35,000
Working budget for the Slough Customer Senate in their co-regulation and scrutiny role, based on £5 per household per year	£35,000
Response to SCS to undertake an inspection of all stairways, lobbies and communal areas of housing blocks to implement Decent homes work to these areas, to tender and commence works.	£100,000
Review and replacement of all communal lighting columns and introduction of new low energy, high intensity bulbs.	£50,000
Introduction of delegated 'just fix it' budget for Housing Officers to sort out problems simply and quickly without the usual bureaucracy	£20,000
Establishment of a Social Housing Fraud Officer to determine the extent, if any, of illegal subletting and abuse of the housing and benefit systems	£35,000
Establishment of a Business Delivery & Contract Clienting Officer to drive forward service improvements and ensure faster on site delivery of estate improvements, environmental works and maintain performance on grounds maintenance, cleansing and responsive repair contracts.	£40,000

- 5.10 These growth bids are offset by the release of the transformation budget of £250,000 set up last year to cover the establishment of the in house housing service.
- 5.11 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 3.5% to allow for the inflationary increase of RPIx to be applied in April 2012. Central services costs have been included based on proposals included in the main operating budget of the council.
- 5.12 Capital charges are based on total borrowing of £160m at an interest rate of 5%. These costs are likely to reduce when the Public Works Loan Board extend new facilities at the end of March 2012. These treasury arrangements have been examined by our advisors (Arlingclose) and their report suggests the rate for new borrowing may be 3% - 3.5%. However existing loan arrangements need to be finalised so that HRA and General Fund loans can be disaggregated and the effects of this are currently being identified.
- 5.13 Council on the 21<sup>st</sup> February 2011 authorised the capital programme including £13,052,000 for HRA expenditure. The final programme is now estimated at £15,786,000 including an estimated £6m for the Britwell satellite housing project. Revised programme expenditure totals are as per the table below. Other affordable housing schemes are being examined with a view to maximising potential income from revised pooling arrangements should the Right to Buy scheme be modified in line with the current consultation due to end in March 2011.

	2012/13	2013/14	2014/15	2015/16
	£ 000's	£ 000's	£ 000's	£ 000's
Decent Homes	5,968	4,924	5,208	5,610
Planned Maintenance	3,134	2,270	2,301	2,484
Environmental works	100	100	100	100
Aids & Adaptations	584	500	400	350
Affordable Housing	6,000	5,000	2,000	3,000
<b>Total</b>	<b>15,786</b>	<b>12,794</b>	<b>10,009</b>	<b>11,543</b>

## HRA Business Plan Projections

- 5.14 The HRA has been projected over 30 years and is highlighted in Appendix 2. However, due to the major changes to the system due in 2012 / 13, only the short to medium term (5 years) can be treated with some degree of certainty. Rent policy after rent restructuring is not yet known and will also have a major bearing on the business plan going forward. The plan identifies the ability to repay the increased borrowings associated with self –financing and it is based on the existing rent increase policy of RPI +0.5% continuing over the life of the plan. This is consistent with the model used by Government to determine the settlement payment and therefore it is likely that any future government policy change will need to identify appropriate funding.
- 5.15 Changes to the right to buy regulations have been examined and an increase in sales from 20 properties to 30 properties in 2012/13 has been included rising to 50 for the following 3 years and then back to 30 thereafter as a prudent estimate.
- 5.16 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. The capital programme assumptions include maintaining all dwellings at the existing approved standard.
- 5.17 The HRA is projected to generate an annual surplus, based on latest Asset Management information, sufficient to commence a repayment of debt programme in 2021/22 with all existing forecast debt repaid by 2036/37. Other borrowing requirements may be necessary in the future and repayment dates will be identified in any future submissions.
- 5.18 The Business Plan projections highlight balances in line with the level recommended in paragraph 5.1 above. This should allow the council to deal with any unknown or unexpected challenges that may occur in the coming years from management of existing stock.

## 6 Comments of Other Committees

The time constraints regarding the introduction of self financing prevented this report from being presented to Overview & Scrutiny Committee however a retrospective copy will be provided together with the offer to attend a future meeting to provide a full explanation of the proposals if required.

## 7 **Conclusion**

The self - financing proposals including the national rent policy have been fully examined and are projected to be beneficial to the council. Balances remain healthy throughout the 30 year period and the new debt taken on in 2011/12 of £137m is projected to be repaid by 2036/37.

## 8 **Appendices**

1 - HRA Budget 2011/12 and 2012/13

2 - HRA Business Plan to 2024/25

## 9 **Background Papers**

'1' - HRA detailed 30 year business plan

'2' - Repairs and maintenance 30 year programme

'3' - Supervision & management 30 year budgets profile

'4' - Dwelling units and average rent profile

'5' - Capital expenditure 30 year programme

	2011-12		2012-13
	REVISED BUDGET	PROBABLE OUTTURN	BASE BUDGET
<b><u>INCOME</u></b>			
Rent Income - Dwellings	(28,463,600)	(28,401,600)	(30,307,000)
Rent Income - Non Dwellings	(1,769,700)	(1,752,121)	(1,647,000)
Charges for Services & Facilities - Tenants	(1,390,600)	(1,374,805)	(1,371,000)
Charges for Services & Facilities - Leaseholder	(595,000)	(605,416)	(610,000)
	<b>(32,218,900)</b>	<b>(32,133,941)</b>	<b>(33,935,000)</b>
<b><u>EXPENDITURE</u></b>			
Repairs & Maintenance	8,135,000	7,833,848	8,785,000
Supervision & Management	6,139,700	5,986,500	6,107,000
Special Services	1,821,700	1,738,637	1,880,000
Housing Subsidy	7,468,800	7,478,800	Nil
Depreciation & Impairment of Fixed Assets	5,020,400	5,020,400	Nil
Increase/Decrease in Provision for Doubtful Debts	100,000	180,000	207,000
	<b>28,685,600</b>	<b>28,238,184</b>	<b>16,979,000</b>
<b><u>NET COST OF SERVICE</u></b>	<b>(3,533,300)</b>	<b>(3,895,757)</b>	<b>(16,956,000)</b>
Capital Charges	1,866,300	1,866,300	8,031,000
Revenue Contributions to Capital	1,580,000	1,580,000	10,376,000
<b><u>(Surplus) / Deficit</u></b>	<b>(87,000)</b>	<b>(449,457)</b>	<b>1,451,000</b>
<b>Reserves</b>			
Balance - Brought Forward	(9,160,700)	(9,530,621)	(9,980,078)
<b>Balance - Carried Forward</b>	<b>(9,247,700)</b>	<b>(9,980,078)</b>	<b>(8,529,078)</b>

**Note:** Subsidy system disbanded March 2012. Depreciation now adjusted out of the account as a technical accounting adjustment and is replaced by Revenue contributions to the capital programme.

**HRA Business Plan**

**Appendix 2**

	Forecast		Business Plan					
	Mar-12	Mar-13	2012/2017	2017/2022	2022/2027	2027/2032	2032/2037	2037/2042
<b>Income</b>								
Rent Income - Dwellings	(28,402)	(30,307)	(164,154)	(195,167)	(225,323)	(254,530)	(287,553)	(324,822)
Rent / Other Income - Non Dwellings	(1,752)	(1,647)	(8,726)	(9,890)	(8,874)	(10,040)	(11,359)	(12,852)
Charges for Services & Facilities - Tenants	(1,375)	(1,371)	(7,016)	(7,344)	(7,950)	(8,860)	(9,890)	(11,055)
Charges for Services & Facilities - Leaseholder	(605)	(610)	(3,284)	(3,905)	(4,574)	(5,325)	(6,159)	(7,133)
	<b>(32,134)</b>	<b>(33,935)</b>	<b>(183,180)</b>	<b>(216,306)</b>	<b>(246,721)</b>	<b>(278,755)</b>	<b>(314,962)</b>	<b>(355,862)</b>
<b>Expenditure</b>								
Repairs & Maintenance	7,834	8,785	46,149	44,904	53,352	55,970	70,002	75,420
Supervision & Management	5,987	6,107	29,784	32,676	36,970	41,828	47,324	53,543
Special Services	1,739	1,880	9,825	11,116	12,576	14,229	16,099	18,126
Housing Subsidy	7,479	-	-	0	-	-	-	-
Depreciation & Impairment of Fixed Assets	5,020	-	-	0	-	-	-	-
Increase/Decrease in Provision for Doubtful Debts	180	207	1,088	1,231	1,393	1,576	1,827	2,068
	<b>28,238</b>	<b>16,978</b>	<b>86,846</b>	<b>89,927</b>	<b>104,291</b>	<b>113,602</b>	<b>135,253</b>	<b>149,156</b>
<b>Net Cost of Service</b>	<b>(3,896)</b>	<b>(16,956)</b>	<b>(96,334)</b>	<b>(126,379)</b>	<b>(142,430)</b>	<b>(165,153)</b>	<b>(179,709)</b>	<b>(206,705)</b>
								-
Capital Charges	1,866	8,031	40,211	38,748	30,822	22,947	11,324	3,110
Revenue Contributions to Capital	1,580	10,377	58,664	54,187	86,205	100,771	110,813	152,885
<b>Net Operating Expenditure / (Income)</b>	<b>(449)</b>	<b>1,451</b>	<b>2,541</b>	<b>(33,445)</b>	<b>(25,403)</b>	<b>(41,435)</b>	<b>(57,571)</b>	<b>(56,930)</b>
<b>Reserves</b>								
Balance - Brought Forward	(9,531)	(9,980)	(9,980)	(7,440)	(10,884)	(6,287)	(7,722)	(15,562)
Debt Repayment				30,000	30,000	40,000	49,732	0
<b>Balance - Carried Forward</b>	<b>(9,980)</b>	<b>(8,529)</b>	<b>(7,440)</b>	<b>(10,884)</b>	<b>(6,287)</b>	<b>(7,722)</b>	<b>(15,562)</b>	<b>(72,492)</b>