



AGENDA ITEM: 15

CABINET:
18 January 2011

**EXECUTIVE OVERVIEW AND
SCRUTINY COMMITTEE:**
3 February 2011

Report of: Executive Manager Housing and Property Maintenance Services

Relevant Portfolio Holder: Councillor Mrs V Hopley

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SUBJECT: HOUSING REVENUE ACCOUNT (HRA) BUDGET FOR 2011-2012

RVL/DDMc/EH2953cabeo&s
7 January 2011

Borough wide interest

1.0 PURPOSE OF THE REPORT

- 1.1 Advise Members of the Rent and Service Charges increases for 2011-2012 as provided under the Government's Rent Reform formulae.
- 1.2 To consider the Housing Revenue account Estimates for 2011-2012.

2.0 RECOMMENDATIONS TO CABINET

- 2.1 That the Rent and Service charges, set within delegated authority, as detailed in paragraph's 6.1 and 6.2 of the report be noted and endorsed.
- 2.2 That the draft Housing Revenue Account (HRA) Subsidy Determination 2011-12, as set out in Appendix A to the report, be noted.
- 2.3 That the Draft Housing Revenue account Estimates for 2011-2012, as set out in Appendix B to the report be noted and consideration be given to how a balanced HRA can be achieved.
- 2.4 That the Portfolio Holder for Housing be authorised to submit firm proposals to Council on 23 February 2011 on the preferred options to balance the HRA

2.5 That the Executive Manager Housing and Property Maintenance Services be authorised to take all necessary action to implement the changes resulting from the budget proposals including the use of reserves, the serving of relevant notices, the increasing of rents etc.

2.6 That call in is not appropriate for this item as the report is to be submitted to Executive Overview and Scrutiny committee on 3 February 2011

3.0 RECOMMENDATION TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE

3.1 That the proposed Draft housing Revenue Account (HRA) budget for 2011-2012 be considered and agreed comments be reported to Council on 23 February 2011

4.0 INTRODUCTION

4.1 The Housing Revenue Account (HRA) budget represents the cost of managing and maintaining Council owned Housing stock of approximately 6,307 homes as at 1st April 2011 and should, as a statutory requirement, be balanced taking one year with another. The requirement to deliver a balanced budget has to be considered alongside two ongoing pressures that continue to be addressed:

- The need to respond to the Government's Rent Convergence Policy; and
- The need to meet the decent homes national target.

The HRA is a ring-fenced account and can only contain entries that relate to the landlord function and that are specified;

- By Statute
- By Statutory Instrument
- By the direction of the Secretary of State.

5.0 BACKGROUND

5.1 Section 76(2) of the Local Government and Housing Act 1989, sets out the main duty placed on the Council in relation to the keeping of the HRA and provides that the Council must formulate proposals in respect of HRA income and expenditure for the financial year which, on the best assumptions and estimates that the Council is able to make at the time, ensure that the HRA does not show a debit balance.

5.2 Under S74 of the Local Government and Housing Act 1989, the Council, as a Local Housing Authority, is required to keep a Housing Revenue Account in accordance with proper practices. The Council has the responsibility to determine a strategy that is designed to ensure that the HRA is in balance taking one year with another. In doing so, it should take into account the following issues:

- The need to determine rent levels for 2011/12, having regard to the obligations placed on the Council to set rents at reasonable levels (Section 24 of the Housing Act 1985) and the introduction in 2002 of the Government's policy on rent restructuring for social housing. Government policy has been reviewed and as a result the guideline rent levels have been amended. This budget takes account of the revised targets.
 - The need to comply with accepted accounting practices.
 - Provide a sound base for the commencement of a "self-financing" Business Plan which looks like it will need to be in place by April 2012.
- 5.3 Since 1 April 1990, under the provisions of the Local Government and Housing Act 1989, the Housing Revenue Account has been ring-fenced. This means that it must, in general, now balance on a year-to-year basis, so that the costs of running the Housing Service, in terms of debt charges and management and maintenance expenditure, must be met from income for the account in any given year. For this reason there is an obligation on the Council to maintain an adequate HRA working Balance to meet unforeseen temporary fluctuations in income or expenditure.
- 5.4 The main sources of income are rent and service charges. Rents for have been calculated using the formula given in HRA Rent Restructuring guidance issued by the Department for Communities and Local Government (DCLG). Council formally adopted the policy of utilising this guidance to inform the annual rent increase and delegated authority to the Executive Manager Housing and Property Maintenance Services to determine the rent levels to be charged each year for as long as the Governments rent reform exists and to report this to Members as part of the budget process.
- 5.5 The main expenditures are supervision and management, repairs and maintenance, and HRA subsidy paid to Government. Under the current HRA Subsidy system Councils that make a surplus on their account (according to government assumptions) have to make a payment into a central pool that is used to subsidise authorities that make a loss.
- 5.6 The Executive Manager Housing and Property Maintenance Services is therefore bringing to Cabinet, an estimate of the HRA income and expenditure for 2011-12. In parallel with this a consultation exercise will be carried out with Tenant Representatives to seek any comments in relation to this process. Any comments will be reported to Council.
- 5.7 Following consideration of the estimates by Executive Overview and Scrutiny Committee on 3 February 2011, their comments will be considered by a meeting of Council on the 23 February 2011. These meetings will also have any details of any latest financial information available.
- 5.8 The Council meeting will provide an opportunity for each Political Group to put forward proposals that combine both expenditure and the means of funding it.

6.0 KEY DETERMINANTS FOR THE BUDGET

The Draft Housing Revenue Account has been largely based on a roll forward of the 2010-2011 Budget uplifted for inflation. The key determinants for the Budget are detailed below.

6.1 SOCIAL RENT REFORM

- 6.1.1 The attached 2011-2012 Draft HRA Budget again proposes a rent increase in line with the Government's Rent Restructuring Guidelines. The guidelines provide for rent increases to be restricted to a maximum of the annual change in the Retail Price Index (RPI) 4.6% (RPI at September 2010) plus 0.5% real growth, plus £2 per week based on achieving convergence with the Government's Rent formula by 2015-2016. The Government estimates that this will result in an overall average rent increase across all Local Authorities of 6.8%
- 6.1.2 Applying the Government's guidelines will result in overall average rent of £67.39 on the basis of 48 chargeable weeks. This represents an overall average increase of £4.29 per week on 2010-2011 comparative overall average rent level of £63.10 also based on a 48 chargeable weeks. Individual Property rents may be higher or lower than the overall average. The Executive Manager Housing and Property Maintenance Services will exercise his delegated authority and advise tenants of the rent increase when the Government has announced its final Housing Subsidy Determination. Currently, this draft determination would indicate that the overall average rent increase across the District will be 6.8% as required by Ministers.
- 6.1.3 Members will no doubt recall that this authority did not increase its rents in line with the Government's formula in the first two years of operation. Because of this there is scope to increase rent higher than 6.8%. The maximum amount that the Council could increase rents by is 7.8% which is 1% above the Government's guideline rent increase for 2011-2012. The additional increase could help address the budget pressures faced this year and would be beneficial for the "self-financing" business plan which will be introduced in April 2012. Members could choose to introduce this now, sometime in the financial year 2011-2012, to be determined, or not at all.

6.2 SERVICE CHARGES

- 6.2.1 Under the government's Rent and Service charges reforms the assumed inflation rate for 2011-12 is 4.6% based on the Retail Price Index as at September 2010. The maximum allowed increase is RPI plus real growth of 0.5%. In exercise of my delegated authority I propose to increase service charges for Cat 0 and Cat 1 type sheltered schemes by 4.6% and Cat 2 type sheltered schemes by 4.8% in 2011-2012. These proposed rates of charge have been included in the Draft Estimates and the weekly scheme charges are detailed in Table 1 below:

Table 1 Sheltered Scheme Service charges per week:

Scheme	2010/11	2011/12	Increase
	£	£	£
Cat 0	11.56	12.09	0.53
Cat 1	17.76	18.58	0.82
Cat 2	22.90	24.00	1.10

- 6.2.2 Members will note that service charges could also be increased from an overall average 4.6% to a maximum overall average of 4.8%. Once again I would ask that consideration be given to increasing Cat 2 service charges by a larger percentage which will help address the current situation where the service charge does not cover the full cost of the services received and are subsidised by other rent payers.
- 6.2.3 Members will recall that authority was delegated to me, in consultation with the Portfolio holder, to determine future District Heating charges. However, much has happened since then. Our Gas suppliers have changed and we are once more with British Gas, and much more importantly we have attracted match funding investments in highly innovative and modern high performance low cost energy heating units. Whilst our supply prices have not materially changed from the previous year, we need some time to see the actual benefits this new technology will bring. Accordingly, I propose to freeze the existing charges so that I may carry out a full review of the District Heating Service to ensure that the benefits of this new equipment have been realised and passed on those on the District Heating Scheme. I will bring a report to Cabinet in the autumn of 2011.
- 6.2.4 In respect of other charges and Garage rents, it is proposed that no increase be applied at this time as this may adversely affect our compliance with the government's limits on rent and service charge increases contained in the Subsidy Determination or will result in lower take up and lower income generation.
- 6.2.5 The Council currently provides a gardening service to elderly residents who can not manage their gardens and do not have relations living in the area to assist them. This service assists around 70 residents. There are tenants who are unable to access this service and are held on a waiting list. The Council has worked with Help Direct to establish a social enterprise which will assist residents, whether they are owners or tenants, for an appropriate fee.
- 6.2.6 Members did review the gardening service during down sizing and looked to reduce the team by one full time equivalent post. However, the team consist of disabled people and it was not possible to deliver this saving in a sensitive and acceptable way.
- 6.2.7 During 2010-2011 I have investigated the possibility of moving service into the independent sector. I have met with a number of social enterprises and there is little appetite to take this team because of the obligations of TUPE (Transfer of Undertakings, Protection of Employment) appears to be too onerous.

6.2.8 Central Funding regimes are changing for care and support costs and all eligible residents will be able to access personalised budgets for these. With this in mind I propose that we introduce a flat charge of £5 per cut. This will not cover the full cost but will raise approximately £2,500 income which will help meet other budget pressures.

6.3 HOUSING SUBSIDY

6.3.1 The Draft Housing revenue account subsidy determination was received on 5 November 2010. This consultation closed on the 16 December 2010 and we are awaiting the Final Housing Revenue Account Subsidy Determination. However, as this is likely to be the last HRA Subsidy Determination prior to implementation of the Government's HRA Finance Reforms there is unlikely to be any material change to the factors determining the amount of subsidy to be paid to the DCLG.

6.3.2 A comparison of outputs from the 2011-2012 Draft HRA subsidy Determination with the 2010-2011 HRA Final subsidy determination are attached at Appendix A. In summary the estimated amount payable to the DCLG is likely to be around £6.34m in 2011-2012, an increase on the comparative settlement in 2010-2011 of £1,034m.

6.4 RIGHT TO BUY

6.4.1 Levels of Council house Right to Buy sales can greatly influence the amount of income the authority might generate from rents and service charges. However, the number of sales in 2010-2011 has to date remained low and this is anticipated to continue well into 2011-2012. For 2011-2012 an estimated 16 Right to Buys have been assumed within the Draft HRA Budget.

6.5 USE OF WORKING BALANCES AND RESERVES

6.5.1 The working balance is a prudent reserve to meet temporary budgetary shortfalls and Reserves are normally designed to meet specific financial needs which arise but are not budgeted for.

6.5.2 The estimated Working balance at 31 March 2011 is estimated to be £632,708. With an average stock of 6,302 in 2011-2012 a prudent Working Balance of £630,200 will ideally need to be maintained. If this minimum level of working balance was to be maintained then there would be £2,508 available to fund programmes in 2011-2012.

6.5.3 When the Council surrendered the lease at Whelmar House, the landlords claimed losses in respect of disrepair and dilapidation. Accordingly a provision was made in the sum of £50,000. Whilst this is still the subject of negotiation the latest advice is the provision can now be reduced by £30,000. I am therefore proposing to release this sum to meet the budgetary issues detailed in paragraph 9 below.

6.5.4 Members will be mindful that the use of Council's HRA Working Balance and Reserves can only be used as "one-off" arrangements.

6.6 INTEREST RATES

- 6.6.1 Interest rates in 2010-2011 have continued to remain low. Having used some of the Working Balance in 2010-11 the amount of interest earned is set to reduce further from £128,100 in 2010/11 to £112,620 in 2011-2012.

6.7 GOVERNMENT HRA FINANCE REFORM

- 6.7.1 The Government is about to publish in 2011 the proposed settlement in respect of the HRA Finance Reform. Whilst this will not affect the 2011-2012 budgets directly, we will need to budget for specialist work which will ensure the success of the self financing business plan. Members should be aware that the Government's planned announcement will have very significant implication for the Council's Housing Service in future years.

7.0 SUSTAINABILITY IMPLICATIONS / COMMUNITY STRATEGY

Setting a balanced budget is a fundamental requirement to achieve sustainability and delivery of the Community strategy. The steps taken now will have to be continued beyond the forthcoming financial year to ensure the council satisfies its fiduciary and legal requirement to deliver a balanced budget.

8.0 FINANCIAL AND RESOURCE IMPLICATIONS

Subject to any further identified costs or savings that may be proposed and allowing for the realignment of budgets to expected levels of expenditure, the HRA (attached at Appendix B) is expected to generate a surplus of around £292,392 before any of the budgetary issues under paragraph 9 below have been considered.

9.0 BUDGETARY ISSUES

The Table below identifies the principal issues for the HRA in 2011-2012 that cannot completely be delivered from the existing resources currently made available:

Item	Budgetary Issue	£'000
9.1	Audit Commission / Tenants Services Authority Service Improvement Plan Implementation	220
9.2	Central Heating Servicing & Maintenance	100
9.3	Disabled Adaptations	281
9.4	Day to day Repairs	50
9.5	Preparation for Self Financing Business Planning	30
9.6	Anti Social Behaviour Support Officer	24
	Total Budgetary Requirement	705

10.0 ESTIMATED RESOURCES AVAILABLE TO THE HRA IN 2011-2012

The Table below identifies resources available to the HRA in 2011-12

Item	Resource	£'000
10.1	Estimated HRA surplus 2011-2012	292
10.2	Available working balance (<i>para 6.5.2</i>)	2
10.3	Available unused HRA Reserve (<i>para 6.5.3</i>)	30
10.4	Income from Gardening Service (<i>para 6.2.8</i>)	2
	subtotal	326
10.5	Income from higher rent and service charges (<i>subject to Members recommending a 1% increase above the Government's guideline rent increase of 6.8% see para 6.1.3 and 6.2.2</i>)	194
	Total Available Resources	520

11.0 BUDGETARY GAP

- 11.1 If Members approve the use of all the available resources identified in paragraph 10 above to the budgetary Issues listed in paragraph 9 above there is a budgetary gap of £185,000. If Members decide that they do not wish to recommend item 10.5 above then the budgetary shortfall becomes £379,000.

12.0 TENANTS COMMENTS AND PRIORITIES

- 12.1 The comments and priorities of the tenants are currently being sought and will be reported to Members in January 2011.

13.0 OPTIONS PROPOSED TO BRIDGE THE BUDGETARY GAP

- 13.1 Members will need to determine their preference for balancing the Housing Revenue account. This report should be read in conjunction with the Mid Term Capital Programme, and the Public Sector Housing Capital Investment Schemes and Programmed Works Projects 2011-2012 being considered elsewhere on tonight's agenda. I will be working with both Political Groups to look at the options for delivering a balanced Housing revenue account. However, to accommodate the budgetary issues highlighted in 9 above Members may need to explore making efficiency savings and/or realigning the Public Sector Capital Programme to tackle the budgetary issues. Additionally, there may be Political priorities that Members would wish to see addressed which will add to the difficulties in determining a balanced Housing Revenue Account.

14.0 RISK ASSESSMENT

Statutorily the Council is required to set a balanced budget based on the best estimates available at the time in January / February each year. Members may determine to increase the level of expenditure. However, if this can only be funded from a reduced working balance or decreases specific reserves then this may not be looked upon favourably by the District Auditor, Government Office or DCLG if it is unsuitable.

Background Papers

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report:

Equality Impact Assessment

There is no evidence from an initial assessment of an adverse impact on equality in relation to the equality target groups.

Appendices

- Appendix A - HRA Subsidy Determination - 2011-2012 Draft Determination compared with 2010-2011 Final Determination
- Appendix B - Revenue Estimates 2011-2012 Housing Revenue Account