

CANNOCK CHASE COUNCIL

CABINET

22 FEBRUARY, 2007

REPORT OF THE DEPUTY CHIEF EXECUTIVE

RESPONSIBLE PORTFOLIO LEADER: POLICY AND RESOURCES LEADER

HOUSING REVENUE ACCOUNT BUDGET 2007-08, 2008-09 AND 2009-10

1. Purpose of Report

- 1.1 To introduce the 2007-08, 2008-09 and 2009-10 Housing Revenue Account (HRA) budgets, to explain the basis upon which the budget has been prepared and to highlight any issues that have a particular impact upon the HRA.
- 1.2 To recommend proposed HRA budgets for 2007-08, 2008-09 and 2009-10 for consideration by Council on 28 February 2007.

2. Recommendations

2.1 That Council on 28 February 2007 are recommended to agree:-

- (a) That the proposed Housing Revenue Account budgets for 2007-08, 2008-09 and 2009-10 as set out in Annex 1.
- (b) That an £840,000 minimum level of working balances are held throughout the three-year budget period.
- (c) That the following Revenue Contributions to Capital Outlay are made to enhance the Housing Revenue Account Capital Programme for 2007-08 and future years:-

<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
£1,534,000	£1,410,000	£1,175,000

2.2 That Cabinet consider:-

- (a) The level of garage rents with effect from 1 April 2007.
- (b) The replacement of "Marley" tile floors undertaken as part of the Council's responsive repairs policy.

and recommend a course of action in respect of these matters for consideration by Council on 28 February 2007.

3. Key Issues

- 3.1 The proposed Housing Revenue Account budgets for 2007-08, 2008-09 and 2009-10 are based on the assumption that the decisions of Council on 28 February, 2007 will be to:-

- (a) Retain the Council's housing stock following consideration of a report on the failure to conclude a Tripartite Agreement and the abortive gap funding discussions with the Department for Communities and Local Government.
 - (b) Approve Cabinet's recommendations (made on 18 January 2007) in relation to the replacement of certain vacant on-bedroom bungalows to sitting tenants and the use of capital receipts generated from the sale of certain one-bedroom bungalows to meet the revised investment deficit in HRA Capital resources forecast for the period 2007-2013.
- 3.2 The revised HRA budget for 2006-07 has been used as the basis for preparing a proposed HRA budget for 2007-08 and subsequent years, by projecting 2006-07 levels of income and expenditure into 2007-08 and future years to identify the probable net cost of HRA services.
- 3.3 The projections are based on a continuation of the Government's current financial regime and as a result, the majority of the assumptions are the same as those used in the Mid Year Review of the HRA, reported to Council on 27 September, 2006. In particular, it has been assumed that:-
- (a) Annual rent changes are made in accordance with the Government's rent restructuring policy, to achieve rent convergence by 31 March, 2012, implemented in October of each year.
 - (b) Pay awards will be made at 2.5% with an 2% increase in other costs for inflation.
 - (c) Minimum working balances are maintained at 5% of net operating expenditure.
 - (d) An annual contribution is made to the IT reserve to replace the existing housing management and maintenance systems.
 - (e) Any revenue surplus above the minimum amount required in working balances is transferred to support the HRA Capital Programme, through an additional Revenue Contribution to Capital Outlay.
- 3.4 Changes have however been made to five assumptions as detailed below:-
- (a) The numbers of dwellings in the housing stock have been further reduced to reflect the recommendations of Cabinet regarding the sale of certain vacant one-bedroom bungalows on the open market and the voluntary sale of certain one-bedroom bungalows to sitting tenants.
 - (b) An increase in the amount of housing subsidy paid to the Department for Communities and Local Government each year to reflect rent assumptions and the revised management and maintenance allowances for 2007-08 and their forward projection to subsequent years.
 - (c) The interest rate used in the calculation of housing subsidy payments and the Item 8 determination has been increased.
 - (d) Changes to the expenditure and income in respect of the Council's Supporting People Contracts as detailed in a separate report elsewhere on your agenda.

- (e) The electrical inspection programme has been integrated into the electrical upgrading programme undertaken as part of the HRA Capital Programme with a consequent saving in costs.

3.5 On this basis, proposed Housing Revenue Account budgets have been prepared for the period 2007-08, 2008-09 and 2009-10. The proposed budgets which represent the cost of continuing with existing policies and levels of service are set out in Annex 1 and are summarised below:-

	2007-08 £000's	2008-09 £000's	2009-10 £000's
Income	16,368	16,523	16,700
Expenditure	16,161	16,742	16,821
Additional/(Reduced) RCCO	134	10	(125)
Total RCCO	1,534	1,410	1,175

3.6 Cabinet should note that should Council:-

- (a) Decide to pursue a continued strategy of stock transfer
or
(b) Not approve Cabinet's recommendations of 18 January, as detailed in 3.1(b) above

then adjustments will need to be made to the 2007-08 budget to ensure that the budget remains in balance. In addition, revised indicative budgets for 2008-09 and 2009-10 would need to be prepared.

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Section 1

Background

- 1.1 Council on 28 February 2007 will:-
- (a) Consider a report on the future strategy for the Council's housing stock which, in the light of the failure to conclude a Tripartite Agreement and abortive gap funding discussions with the Department for Communities and Local Government, will recommend that:-
 - (i) The Council discontinue its pursuit of a stock transfer strategy.
 - (ii) Cabinet consider a further report on an interim stock retention strategy.
 - (b) Reconsider in the light of comments from the Scrutiny Committee the recommendations of Cabinet on 18 January 2007 regarding:-
 - (i) The 'replacement' of certain vacant one-bedroom bungalows with alternative social housing and the voluntary sale of certain one-bedroom bungalows to sitting tenants.
 - (iii) The use of capital receipts generated from the sale of certain one-bedroom bungalows to meet the (revised) investment deficit in Housing Revenue Account capital resources forecast for the period 2007-2013.
 - (c) Consider the recommendation of Cabinet on 18 January 2007 to renew the replacement of "Marley" tile floors undertaken as part of the Council's responsive repairs policy as part of the HRA budget for 2007-08 and future years.
- 1.2 The income and expenditure estimates in relation to the proposed HRA budget set out in this report are based upon the agreement of Council on 28 February to the recommendations set out above. It has therefore been assumed that:-
- (a) The Council will retain its housing stock for an interim period, the length of which has yet to be determined.
 - (b) An estimated 35 vacant one-bedroom bungalows will be sold each year, together with 20 annual voluntary one-bedroom bungalows sales to sitting tenants.
 - (c) No reductions to the current level of HRA services are required to meet the (revised) deficit in Housing Revenue Account capital resources for the period 2007-2013.
- 1.3 The impact of changes to these assumptions is outlined through a sensitivity analysis in Section 5.

Section 2

Housing Revenue Account 2006-07

- 2.1 The projected outturn reflects previous approvals arising from the review of the Mid Year Review of the Housing Revenue Account as agreed by Council on 27 September 2006 together with a reduction in recharges and rent income.

- 2.2 Total expenditure is now estimated to be £15,617,320 compared to £15,585,350 estimated at Mid Year Review. The increase in expenditure of £31,970 results from a number of variances as detailed in Annex 1. These include:-
- (a) Housing subsidy – An increase of £35,840 in the amount of housing subsidy paid to the Department for Communities and Local Government.
 - (b) Repairs and Maintenance – An increase of £127,060 in responsive maintenance to meet the cost of additional repair work following a virement from supervision and management.
 - (c) Supervision and Management – A net reduction of £95,190 following a virement to responsive maintenance and a reduction in recharges out of the HRA in respect of the supporting people programme.
 - (d) Capital Financing – Savings of £35,740 in respect of capital financing costs.
- 2.4 Total income is projected to be £16,133,620 compared to £16,193,290 estimated at mid year review. The decrease in income of £59,670 results primarily from lower than anticipated rent income.

Section 3

Proposed Housing Revenue Account Budgets for 2007-08, 2008-09 and 2009-10

- 3.1 The revised HRA budget for 2006-07 has been used as the basis for preparing a proposed HRA budget for 2007-08 and subsequent years. This has included projecting 2006-07 levels of income and expenditure into 2007-08 and future years in order to identify the probable net cost of HRA services. Where known, all changes to anticipated levels of income and expenditure have been included.
- 3.2 The projections are based on a continuation of the Governments current financial regime and no account has been taken of the potential change to allow some excellent Council's and ALMO's to operate outside the HRA subsidy system as outlined in the discussion paper "From Decent Home to sustainable communities", which was issued by the Department for Communities and Local Government in June 2006 and reported to Cabinet on 20 July, 2006.
- 3.3 Any changes to the current financial regime will be considered as part of the 2007 Comprehensive Spending Review and until the results of this are known, the situation for the Council is unclear. It is, however, expected that the Government will continue to link "financial freedoms" with external performance assessments and in order to take advantage of any reform the Council would need to gain a "3-star" Audit Commission Assessment for its housing service.
- 3.4 As a result, the majority of assumptions used in the projections are the same as those used in the Mid Year Review of the Housing Revenue Account, reported to Council on 27 September, 2006. In particular it has been assumed that :-
- (a) Annual rent changes are made in accordance with the Governments rent restructuring policy, to achieve rent convergence by 31 March 2012, implemented in October of each year.
 - (b) Pay awards will be made at 2.5% with a 2% increase in other costs for inflation.

- (c) Minimum working balances are maintained at 5% of net operating expenditure.
- (d) An annual contribution is made to the IT reserve to replace the existing housing management and maintenance systems.
- (e) Any revenue surplus above the minimum amount required in working balances is transferred to support the HRA Capital Programme, through an additional Revenue Contribution to Capital Outlay.

3.5 Changes have however, been made to five assumptions as detailed below:-

- (f) The numbers of dwellings in the housing stock have been further reduced to reflect the recommendations of Cabinet regarding the sale of certain vacant one-bedroom bungalows on the open market and the voluntary sale of certain one-bedroom bungalows to sitting tenants.
- (g) An increase in the amount of housing subsidy paid to the Department for Communities and Local Government each year to reflect rent assumptions and the revised management and maintenance allowances for 2007-08 and their forward projection to subsequent years.
- (h) The interest rate used in the calculation of housing subsidy payments and the Item 8 determination has been increased.
- (i) Changes to the expenditure and income in respect of the Council's Supporting People Contracts as detailed in a separate report elsewhere on your agenda.
- (j) The electrical inspection programme has been integrated into the electrical upgrading programme undertaken as part of the HRA Capital Programme with a consequent saving in costs.

3.6 The proposed budgets therefore represent the cost of continuing with existing policies and levels of service.

3.7 A full analysis of the proposed budgets for 2007-08, 2008-09 and 2009-10 is attached as Annex 1. This compares the current position (budget review) with the situation estimated at the time of the Mid Year Review, as reported to Council on 27 September 2007.

3.8 The effect of the proposed budgets on the estimated level of working balances during the period 2006-07 to 2009-10 is attached as Annex 2.

3.9 For 2007-08 total expenditure is now estimated to be £16,161,250 compared to £16,063,280 estimated at the Mid Year Review. The increase in expenditure of £97,970 results from a number of variances as detailed in Annex 1. These include:-

- (a) Housing subsidy – An increase of £58,030 in the amount of housing subsidy paid to the DCLG
- (b) Repairs and Maintenance – A decrease of £11,980 in responsive maintenance.
- (c) Supervision and Management – A net increase of £8,040 as a result of a reduction in recharges into the HRA and an increase in decoration allowances

(d) Capital Financing – An increase of £43,880 in respect of capital financing costs.

3.10 Total income for 2007-08 is now projected to be £16,367,980 compared to £16,382,020 estimated at the mid year review. The decrease in income of £14,040 results primarily from lower than anticipated rent income.

3.11 The projected levels of Income and expenditure for 2008-09 and 2009-10 are set out below:-

	<u>2008-09</u>	<u>2009-10</u>
	£000's	£000's
Estimated Income	16,523	16,700
Estimated Expenditure	16,742	16,821
Additional /(Reduced) RCCO	10	(125)
Transfer to / (from) Working Balances	(229)	4

Section 4

Level of Balances

4.1 In recommending the level of working balances Cabinet need to take into account the requirements in the budget process for Reserves and Balances. There is a minimum requirement of 5% of net operating expenditure being required to be maintained in working balances, subject to a detailed risk analysis being undertaken.

4.2 A full risk analysis is presented in section 11, which requires the Council to adopt a prudent approach to budgeting and maintain balances at the minimum 5% level as stated above.

4.3 The draft budget now presented indicates that the level of working balances will be £841,386 at 31 March 2010. The table below illustrates the predicted level of working balances over the period 2006-07 to 2009-10.

	£
Working Balances at 31 March 2007	993,766
Working Balances at 31 March 2008	1,066,496
Working Balances at 31 March 2009	837,406
Working Balances at 31 March 2010	841,386

Section 5

Sensitivity Analysis

5.1 The implications for the HRA of Council not approving the recommendations of Cabinet regarding the replacement of certain vacant one-bedroom bungalows with alternative social

housing and the voluntary sale of certain one-bedroom bungalows to sitting tenants are detailed below:-

	<u>As per Report</u>	<u>Excluding Sales of Bungalows</u>	<u>Variance</u>
	<u>£,000</u>	<u>£,000</u>	<u>£000's</u>
<u>Cabinet's Recommendations Agreed</u> (Position as Detailed in Section Four)			
Estimated Available Income 2007-08 to 2009-10	49,591	50,342	751
<u>Less</u> HRA Expenditure Requirement 2007-08 to 2009-10	49,743	49,967	(224)
Transfer from Balances 2007-08 to 2009-10	(152)	375	527
<u>Net Changes in Income</u>			
(a) Rent Income	47,823	48,574	751
	47,823	48,574	751
<u>Net Changes in Expenditure Requirements</u>			
(a) Repairs and Maintenance	(10,971)	(11,141)	(170)
(a) Housing Subsidy	(9,619)	(9,673)	(54)
	(20,590)	(20,814)	(224)

- 5.2 If Council do not approve the voluntary sale of vacant one-bedroom bungalows there will be a £2.085 million investment deficit in HRA capital resources for the period 2007-2013 as detailed in a separate report on the agenda.

Section 6

Garage Rents

- 6.1 It is normal practice for the Council to specifically consider the level of Garage rents to be charged as part of the budget making process.
- 6.2 Currently garage rents stand at £6.25 per week. Each 10p per week increase from 1 April 2007 would raise approximately £5,000 per annum. A 30p increase would thus raise around £15,000, or a 50p increase would raise £25,000. No provision for any increase has been made within the projected budgets.
- 6.3 There are however, a number of administrative advantages in implementing changes to garage rents at the same time rent changes are made to the Council's housing stock. Cabinet may therefore wish to consider the review of garage rents in October each year.

Section 7

Contribution to CHASE

- 7.1 The implementation of the proposed HRA budgets for 2007-08, 2008-09 and 2009-10 will contribute towards the social inclusion and housing objective of CHASE, by supporting the delivery of the decent homes standard for the Council's housing stock by 2010.
- 7.2 In addition, the proposed budgets will also contribute to other CHASE objectives as follows:-
- (a) Health – helping to develop a healthy community through the effective management and maintenance of the Council's housing stock.
 - (b) Access to Skills and Economic Development – contribute to the development of a strong local economy through investment in the housing stock.
 - (c) Environment – contribute to a clean, safe and sustainable environment through the effective management of Council estates.

Section 8

Section 17 (Crime Prevention) Implications

- 8.1 Actions to combat anti-social behaviour on the Council's estates which would be funded through the proposed budgets would have positive implications for crime prevention.

Section 9

Human Rights Act Implications

- 9.1 There are no identified implications in respect of the Human Rights Act arising from this report.

Section 10

Data Protection Act Implications

- 10.1 There are no identified implications in respect of the Data Protection Act arising from this report.

Section 11

Risk Management Implications

- 11.1 Inadequate management of the Housing Revenue Account has been identified in the Council's risk register. The potential problems include:-
- (a) The October rent review policy which necessitates rent changes to be estimated in advance of the Government's determination of management and maintenance allowances which govern HRA subsidy calculation for the next financial year.
 - (b) Increases in interest rates, material costs and pay awards above those provided within the agreed budget.
 - (c) Further adverse changes to the Council's position of negative subsidy.

- (d) The volatile nature of property sales under the Right to Buy.
 - (e) The Government's rent restructuring and convergence policies which prescribes rent changes and prohibits rent increases to fund net expenditure shortfalls.
 - (f) Over or underspending (when agreed service standards are not being met).
 - (g) A failure to collect or generate income.
 - (h) Unforeseen events, including, for example structural problems associated with landfill.
- 11.2 The score rating for gross risk is 20 which falls within the high-risk category. It is however, considered that the Council can undertake a number of actions to mitigate a number of the identified risks which include:-
- (a) The adoption of a prudent approach to budgeting
 - (b) The maintenance of an adequate level of working balances, comprising a minimum of 5% of net operating expenditure.
 - (c) Medium-term Housing Revenue Account business plan projections for the period 2007-2013, together with associated sensitivity analysis.
 - (d) Firm budgetary control through regular monitoring of actual and forecast income and expenditure and a comprehensive Mid-Year Review of the Housing Revenue Account.
 - (e) The implementation of an annual internal Audit plan and scrutiny from the External Auditor.
- 11.3 It is considered that these actions will reduce the risk score to 4, placing it within the tolerable risk category.

Section 12

Legal Implications

- 12.1 The legal implications are set throughout the report, including the requirement for the Council to set a balanced budget.

Section 13

Financial Implications

- 13.1 The financial implications have been referred to throughout the report.

Section 14

Human Resource Implications

- 14.1 Provision has been made within the proposed budgets for the current establishment, together with the additional posts to meet the revised supporting people specifications as detailed in the separate report elsewhere on your agenda.
- 14.2 Estimated budgets include a 2.5% provision for future pay awards.

Section 15

Conclusion

15.1 This report considers proposed HRA budgets for 2007-08, 2008-09 and 2009-10 as set out in Annex 1.

15.2 The recommendations are set out in section two of the preceding report.

Background Papers

Annexes

Annex 1: HRA Budget Review 2006-07 to 2009-10

Annex 2: HRA Working Balances 2006-07 to 2009-10

	HRA BUDGET REVIEW											
	Budget 2006-07			Budget 2007-08			Budget 2008-09			Budget 2009-10		
	Revised	Estimated Outturn	Variance	Original	Revised	Variance	Original	Revised	Variance	Original	Revised	Variance
Income												
Dwelling Rent	(15,617,570)	(15,556,180)	61,390	(15,802,170)	(15,789,560)	12,610	(16,033,040)	(15,933,620)	99,420	(16,295,360)	(16,099,410)	195,950
Non Dwelling Rent	(423,470)	(418,660)	4,810	(426,890)	(418,660)	8,230	(434,430)	(427,410)	7,020	(442,970)	(436,420)	6,550
Interest	(16,760)	(16,760)	0	(15,410)	(15,410)	0	(15,720)	(15,870)	(150)	(18,280)	(16,340)	1,940
Other	(85,390)	(91,920)	(6,530)	(85,500)	(92,300)	(6,800)	(86,030)	(92,690)	(6,660)	(86,030)	(93,090)	(7,060)
General Fund Cont.	(50,100)	(50,100)	0	(52,050)	(52,050)	0	(52,050)	(53,350)	(1,300)	(54,420)	(54,420)	0
Total Income	(16,193,290)	(16,133,620)	59,670	(16,382,020)	(16,367,980)	14,040	(16,621,270)	(16,522,940)	98,330	(16,897,060)	(16,699,680)	197,380
Expenditure												
Housing Subsidy	2,351,680	2,387,520	35,840	2,769,980	2,828,010	58,030	3,124,360	3,248,070	123,710	3,452,660	3,542,480	89,820
Repairs and Maintenance	3,859,890	3,986,950	127,060	3,790,880	3,778,900	(11,980)	3,636,360	3,693,490	57,130	3,469,570	3,499,050	29,480
Supervision & Management - General	2,452,550	2,323,540	(129,010)	2,498,540	2,514,980	16,440	2,606,540	2,690,950	84,410	2,659,570	2,680,070	20,500
Supervision & Management - Special	600,310	633,160	32,850	634,010	629,650	(4,360)	659,270	662,750	3,480	672,440	706,470	34,030
Rents, rates, taxes and other charges	273,710	274,680	970	284,210	280,170	(4,040)	292,260	285,770	(6,490)	298,110	291,490	(6,620)
Rent Rebates	0	0	0	0	0	0	0	0	0	0	0	0
Increased provision for bad debts	89,190	89,190	0	90,980	90,980	0	90,980	92,800	1,820	90,980	94,660	3,680
Capital Financing	4,558,020	4,522,280	(35,740)	4,594,680	4,638,560	43,880	4,608,930	4,668,200	59,270	4,648,450	4,706,480	58,030
RCCO	1,400,000	1,400,000	0	1,400,000	1,400,000	0	1,400,000	1,400,000	0	1,300,000	1,300,000	0
Total Expenditure	15,585,350	15,617,320	31,970	16,063,280	16,161,250	97,970	16,418,700	16,742,030	323,330	16,591,780	16,820,700	228,920
(Surplus)/Deficit	(607,940)	(516,300)	91,640	(318,740)	(206,730)	112,010	(202,570)	219,090	421,660	(305,280)	121,020	426,300
Additional RCCO	1,243,000	1,243,000	0	134,000	134,000	0	48,000	10,000	(38,000)	0	(125,000)	(125,000)
Working Balance												
B/fwd	(1,720,466)	(1,720,466)	0	(1,085,406)	(993,766)	91,640	(1,270,146)	(1,066,496)	203,650	(1,424,716)	(837,406)	587,310
In Year	635,060	726,700	91,640	(184,740)	(72,730)	112,010	(154,570)	229,090	383,660	(305,280)	(3,980)	301,300
C/fwd	(1,085,406)	(993,766)	91,640	(1,270,146)	(1,066,496)	203,650	(1,424,716)	(837,406)	587,310	(1,729,996)	(841,386)	888,610
Minimum Working Balance		780,866			808,063			837,102			841,035	

HRA Working Balances 2006-07 to 2009-10

	Mid Year Review £	Budget Review £	Variance £
HRA Working Balance at 01/04/06	(1,720,466)	(1,720,466)	0
To Estimated Transfer to / (from) balances	635,060	726,700	91,640
Estimated Working Balance at 31/03/07	(1,085,406)	(993,766)	91,640
To Estimated Transfer to / (from) balances	(184,740)	(72,730)	112,010
Estimated Working Balance at 31/03/08	(1,270,146)	(1,066,496)	203,650
To Estimated Transfer to / (from) balances	(154,570)	229,090	383,660
Estimated Working Balance at 31/03/09	(1,424,716)	(837,406)	587,310
To Estimated Transfer to / (from) balances	(305,280)	(3,980)	301,300
Estimated Working Balance at 31/03/10	(1,729,996)	(841,386)	888,610