

CANNOCK CHASE DISTRICT COUNCIL

CABINET

21 FEBRUARY, 2008

JOINT REPORT OF THE DIRECTOR OF SERVICE IMPROVEMENT
AND THE DIRECTOR OF GOVERNANCE

PORTFOLIO LEADER: LEADER OF COUNCIL

HOUSING REVENUE ACCOUNT BUDGETS 2008-09, 2009-10 AND 2010-11

1. Purpose of Report

- 1.1 To introduce the 2008-09, 2009-10 and 2010-11 Housing Revenue Account (HRA) budgets, to explain the basis upon which the budgets have been prepared and to highlight issues which have a particular impact on the HRA.
- 1.2 To consider proposed HRA budgets for 2008-09, 2009-10 and 2010-11 for consideration by Council on 27 February 2008.

2. Recommendations

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| <ol style="list-style-type: none">2.1 That Cabinet consider the proposed HRA budgets for 2008-09, 2009-10 and 2010-11 as set out in Annex 1 and recommend to Council on 27 February, 2008:-<ol style="list-style-type: none">(a) Proposed HRA budgets for 2008-09, 2009-10 and 2010-11(b) The minimum level of working balances which are held throughout the three year budget period(c) The level of revenue contributions to capital outlay to be made during the three year budget period. |
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3. Key Issues

- 3.1 The revised HRA budget for 2007-08 has been used as the basis for preparing proposed HRA budgets for 2008-09, 2009-10 and 2010-11 by projecting 2007-08 levels of income and expenditure into 2008-09 and future years.
- 3.2 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 previous budget reviews.
- 3.3 The proposed budgets represent the cost of continuing with existing policies and levels of service and include additional budgetary provision to reflect:

- (a) The need to produce Home Energy Performance certificates in respect of vacant dwellings before they are re-let. The additional cost of this work has been recognised in the 2008-09 subsidy determination and the additional subsidy has been included within the budget (£22,500).
- (b) The cost of advertising vacant properties in accordance with a Choice Based Lettings scheme. A proposed scheme was agreed by Cabinet in April 2007 and following a consultation exercise, a final scheme will be considered by Cabinet in March 2008 (£15,000).
- (c) The provision of carbon monoxide detectors to certain properties (following a risk assessment) in accordance with the recommendations of CORGI following a review of the Council's gas maintenance service (£24,000).
- 3.4 A full analysis of the proposed budgets for 2008-09, 2009-10 and 2010-11 is attached as Annex 1, whilst the effect of the proposed budgets on the estimated level of working balances during the period 2008-09 to 2010-11 is attached as Annex 2.
- 3.5 The projected levels of income and expenditure for 2008-09, 2009-10 and 2010-11 are set out below:-

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
Estimated Income	16,496	16,714	16,729
Estimated Expenditure	16,835	16,985	16,696
Additional / (Reduced) RCCO	(260)	(290)	0
Transfer to / (from) Working Balances	(79)	19	33

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Section 1

1. Background

- 1.1 It is the Council's policy to formulate a rolling three-year HRA budget and this report considers HRA income and expenditure for the period 2008-09 to 2010-11.
- 1.2 A review of the 2007-08 HRA budget is presented as part of a separate report ('Housing Revenue Account and Housing Revenue Account Capital Programme Review 2007-08') elsewhere on your agenda. This has been used as the basis for preparing the three-year HRA budgets.

Section 2

2. Housing Revenue Account Budgets for 2008-09, 2009-10 and 2010-11

- 2.1 As previously stated the revised HRA budget for 2007-08 has been used as the basis for preparing the three year HRA budget for the period 2008-09 to 2010-11. This has included projecting 2007-08 levels of income and expenditure into 2008-09 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.
- 2.2 The projections are based on a continuation of the Government's current financial regime. In particular, no account has been taken of potential changes which may:-
 - (a) Allow Councils to operate outside the HRA subsidy system subject to "one off adjustment" based on the present value of anticipated surplus payments
(As outlined in the Housing Green paper and the Housing and Regeneration Bill.)
 - (b) Delay rent convergence to 2017
(As outlined as part of the subsidy determination for 2008-09.)
- 2.3 As a result, the majority of the assumptions are the same as those used in previous budget reviews and 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 by equal changes in October each year.
 - (b) The amount of negative subsidy paid to the DCLG each year is based on the 2008-09 increase in management and maintenance allowances continuing until 2012, with increases being limited to inflation for the remainder of the period.
 - (c) The implementation of a strategy of clearance and redevelopment for the majority of the Council's pre-reinforced concrete (PRC) dwellings as agreed by Cabinet on 1 December, 2005.

(Note: Following the decision of Council on 28 February, 2008 to review this strategy in respect of the Moss Estate and the Rowley Close area, the results of an options appraisal will be considered by Cabinet in March 2008.)

- (d) Any revenue surplus above the minimum amount required in working balances is transferred to support the HRA Capital Programme, through a Revenue Contribution to capital outlay.

2.4 Changes have, however, been made to four assumptions as details below:-

- (a) The number of dwellings in the housing stock has been adjusted to reflect the decrease in property sales under the RTB and in respect of one bedroom bungalows
- (b) Reductions in supervision and management costs (10%), the Housing Maintenance Management fee (5%) and corporate recharges (5%) have been assumed in 2009-10 and 2010-11 to reflect the reduction in the number of dwellings in the housing stock
- (c) The Repairs and Maintenance budget has been increased by £50,000 per annum for the three year period to reflect the increased demand for responsive repairs in accordance with current policies.

2.5 The proposed budgets represent the cost of continuing with existing policies and levels of service. However, additional budgetary provision has also been made to reflect:-

- (a) The need to produce Home Energy Performance certificates in respect of vacant dwellings before they are re-let. The additional cost of this work has been recognised in the 2008-09 subsidy determination and the additional subsidy has been included within the budget (£22,500)
- (b) The cost of advertising vacant properties in accordance with a Choice Based Lettings scheme. A proposed scheme was agreed by Cabinet in April 2007 and following a consultation exercise, a final scheme will be considered by Cabinet in March 2008 (£15,000)
- (c) The provision of carbon monoxide detectors to certain properties (following a risk assessment) in accordance with the recommendations of corgi following a review of the council's gas maintenance service (£24,000).

2.6 A full analysis of the proposed budgets for 2008-09, 2009-10 and 2010-11 is attached as Annex 1, whilst the effect of the proposed budgets on the estimated level of working balances during the period 2008-09 to 2010-11 is attached as Annex 2.

- 2.7 The projected levels of income and expenditure for 2008-09, 2009-10 and 2010-11 are set out below:-

	2008-09 £000's	2009-10 £000's	2010-11 £000's
Estimated Income	16,496	16,714	16,729
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Additional / (Reduced) RCCO	(260)	(290)	0
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Section 3

3. Level of Balances

- 3.1 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.
- 3.2 A full risk analysis is presented in section 8 which requires the Council to adopt a prudent approach to budgeting and maintain balances at the minimum 5% level as stated above.
- 3.3 The draft budget now presented indicates that the level of working balances will be £880,913 at 31 March, 2011. The table below illustrates the predicted level of working balances over the period 2008-09 to 2010-11:-

	£
Working Balances at 31 March 2008	907,913
Working Balances at 31 March 2009	829,133
Working Balances at 31 March 2010	847,713
Working Balances at 31 March 2011	880,913

Section 4

4. Contribution to CHASE

- 4.1 The implementation of the HRA budgets during the period 2008-09 to 2010-11 will contribute towards the Healthier Communities, Housing and Older People objective of CHASE.

Section 5

5. Section 17 (Crime Prevention) Implications

- 5.1 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 6

6. Human Rights Act Implications

- 6.1 There are no identified Human Rights Act implications associated with this report.

Section 7

7. Data Protection Implications

- 7.1 There are no identified Data Protection Act implications associated with this report.

Section 8

8. Risk Management Implications

- 8.1 A potential risk arising from 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 of 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.

- 8.2 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) Housing Revenue Account business plan projections for the period 2008-2014, together with associated sensitivity analysis.
 - (d) Firm budgetary control through regular monitoring of actual and forecast income and expenditure.
 - (e) The implementation of an annual internal Audit plan and scrutiny from the External Auditor.
- 8.3 It is considered that these actions will reduce the risk score to 4, placing it within the tolerable risk category.

Section 9

9. Legal Implications

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

Section 10

10. Financial Implications

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

Section 11

11. Human Resource Implications

- 11.1 Estimated budgets include a 2.5% provision for future pay awards.

Section 12

12. Conclusion

- 12.1 This report considers proposed HRA budgets for 2008-09, 2009-10 and 2010-11 as set out in Annex 1.
- 12.2 The recommendations are set out in section two of the preceding report.

Background Papers

Annexes

- Annex 1: HRA Budget Review 2008-09 to 2010-11
- Annex 2: HRA Working Balances 2007-08 to 2010-11

ANNEX 1

Annex 1

HRA BUDGET REVIEW

	Budget 2008-09 £	Budget 2009-10 £	Budget 2010-11 £
Income			
Dwelling Rent	(15,953,950)	(16,160,750)	(16,170,960)
Non Dwelling Rent	(403,250)	(413,880)	(419,620)
Interest	(7,760)	(7,060)	(6,480)
Other	(92,690)	(93,090)	(93,430)
General Fund Cont.	(38,760)	(38,760)	(38,760)
Total Income	(16,496,410)	(16,713,540)	(16,729,250)
Expenditure			
Housing Subsidy	3,116,140	3,542,440	3,839,700
Repairs and Maintenance	3,886,060	3,781,320	3,780,510
Supervision & Management - General	3,037,670	2,857,330	2,822,110
Supervision & Management - Special	596,160	637,250	658,930
Rents, rates, taxes and other charges	0	0	0
Rent Rebates	0	0	0
Increased provision for bad debts	92,800	94,660	94,660
Capital Financing	4,706,360	4,771,960	4,794,140
RCCO	1,400,000	1,300,000	706,000
Total Expenditure	16,835,190	16,984,960	16,696,050
(Surplus)/Deficit	338,780	271,420	(33,200)
Additional / (Reduced) RCCO	(260,000)	(290,000)	0
Revised (Surplus)/ Deficit	78,780	(18,580)	(33,200)
Working Balance			
B/fwd	(907,913)	(829,133)	(847,713)
In Year	78,780	(18,580)	(33,200)
C/fwd	(829,133)	(847,713)	(880,913)
Minimum Working Balance	828,750	834,790	834,803

ANNEX 2HRA WORKING BALANCES 2007-08 TO 2010-11

	Original £	Revised £	Variance £
HRA Working Balance at 01/04/07	(993,766)	(944,913)	48,853
To Estimated Transfer to / (from) balances	(72,730)	37,000	109,730
Estimated Working Balance at 31/03/08	(1,066,496)	(907,913)	158,583
To Estimated Transfer to / (from) balances	229,090	78,780	(150,310)
Estimated Working Balance at 31/03/09	(837,406)	(829,133)	8,273
To Estimated Transfer to / (from) balances	(3,980)	(18,580)	(14,600)
Estimated Working Balance at 31/03/10	(841,386)	(847,713)	(6,327)
To Estimated Transfer to / (from) balances		(33,200)	
Estimated Working Balance at 31/03/11		(880,913)	