



CS2297

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## **Meeting of the Executive Members for 11<sup>th</sup> December 2006 Housing and Adult Social Services and Advisory Panel**

Report of the Director of Housing and Adult Social Services

### **Housing Revenue Account Service Plan and Budgets 2007/2008**

#### **Summary**

- 1 The report advises of the revenue estimates for the Housing Revenue Account (HRA) for the financial year 2007/2008. Annex 1 provides a detailed analysis of the HRA's proposed budget.

#### **Background**

- 2 Local Housing Authorities are required, by legislation, to keep a HRA. The Local Government and Housing Act 1989 stated that items of income and expenditure only relating to Council housing must be contained within the account. Thus the terms 'ring-fenced' or 'landlord' account are now referred to, as transfers between the HRA and General Fund are normally prevented.
- 3 The Act also outlined the new subsidy arrangements whereby subsidy would be allocated on a 'notional' HRA. This account is based on Government assessments of what local authorities should charge in rents and expenditure on management and maintenance etc., rather than what they actually do.
- 4 Authorities have a duty to ensure that the HRA balances, to keep the budget under review and to take all reasonable steps to avoid a deficit. In previous years any surplus on the account was used to fund the housing capital programme through a direct revenue contribution to capital.
- 5 As identified within the Business Plan, the HRA is required to make a net saving year on year. Any growth must therefore be matched by compensatory savings elsewhere within the account.

#### **Service Planning**

- 6 An update to the service plans for the period 2006-2009 is attached at Annex 2. This is provided so that members are aware of any changes we can foresee to the plans for 2007/8 and can take these into account when coming

to their views about budget decisions for next year. Members attention is particularly drawn to the sections covering the updates on the significant drivers for change and improvement and the impact on the services.

7 In summary, the key issues to note at this meeting are:

- a. **The Respect Standard for Housing Management** - In 2006 the DCLG issued the 'Respect Standard for Housing Management' this action is needed to ensure the council meets that standard, via its Housing Service, and associated Partnerships. A key aim of the Respect Standard is to ensure that communities perceive estates as safer places to live.
- b. **Review service priorities and standards for repairs** - Repairs are currently categorised into three levels of urgency, with associated target timescales. The purpose of the review will be to look at end-to-end repair timescales, including reducing repeat visits. The aim of this review will be to increase the number of repairs completed within category. Increase the number of repairs completed in one visit and Increased customer satisfaction with service
- c. **Decanting of tenants from, and the Demolition of, 100 'Discus' Bungalows** - The discus bungalows are of non-traditional construction and would be difficult and costly to bring up to the decent homes standard. In March 2006, EMAP approved demolition of the bungalows. A project manager was appointed in July 2006 and a project plan has been produced. A board including Discus residents, ward members and senior council officers are monitoring project delivery.

### **Rent Restructuring**

8 Government have issued guidance on the restructuring of rents and this has been implemented with effect from 1<sup>st</sup> April 2002. A report elsewhere on the agenda asks the Executive Member to agree and refer the guideline rent increase in York of 5% to the Executive for approval. Any effects on the HRA have been included in the HRA budgets at Annex 1.

### **Supporting People**

9 Supporting People (SP) is the government's initiative to change the way support services are funded. From April 2003 funding routes via government agencies and Housing Benefit were removed and a Supporting People Grant is paid to and administered by the local authority. Through the SP strategy three yearly reviews of all SP grant funded services is required.

10 Previously all supporting people funding, including that for council tenants currently charged to the HRA, was to be accounted for within the general fund. Authorities were given discretion to account for support services delivered to tenants either within the HRA or the general fund. These services were left within the HRA and the resulting SP income is included in the HRA.

- 11 Service reviews are continuing to be undertaken and there could be a reduction in the SP income to the HRA in future years. Estimates of the effects are included within the HRA.

### Negative Subsidy

- 12 The two major sources of funding HRA expenditure have been Government subsidy and rent income. Due to the removal of the payment of rent rebates through the HRA there is now a net surplus on the 'notional HRA' as the rent income now exceeds the subsidy payable by the government for HRA expenditure on management and maintenance etc. This results in a 'negative' subsidy payable by the authority to the government of £5,354k for 2007/08. This compares to £4,902k for 2006/07.

	<b>2006/2007 Estimate</b> <b>£'000</b>	<b>2007/2008 Estimate</b> <b>£'000</b>
HRA subsidy payable (including MRA)	16,937	17,824
Notional Rent Income from Council tenants	(21,839)	(23,178)
Subsidy	(4,902)	(5,354)

### Borrowing and Debt Repayment

- 13 From 1 April 2004 authorities can determine for themselves what capital investment is required and have the freedom to borrow (within prudential principles) to deliver housing services. Some supported borrowing continues and the interest charges for the elements used to fund HRA capital expenditure is paid from the HRA and refunded through subsidy. Prudential borrowing which takes place over and above the (supported) capital financing requirement is "unsupported" in that the authority must find the means of paying back interest and principal from within its own resources. There are no proposals to undertake prudential borrowing for HRA purposes in 2007/08.
- 14 Previously authorities were required to make a revenue provision to repay 2% of net HRA debt and this was funded through HRA subsidy. Authorities are no longer compelled to make this provision and any voluntary contribution will not be paid by subsidy. Guidance suggested it would be advisable to make a voluntary contribution. From 2004/05 it was considered prudent to continue to make a provision based on the previous rules of 2% of the outstanding HRA debt and that future borrowing be repaid over the life of the capital scheme eg tenants' choice would be repaid over 30 years. This shall continue in 2007/08.

## Consultation

- 15 None

## Options

- 16 Members of EMAP are asked for their comments or alternative suggestions on the investment and savings proposals shown in paras 21-22.

## Analysis

- 17 The 2006/2007 latest budget at Annex 1 (a report on which can be found elsewhere on this agenda) provides an analysis of current service activity as a backdrop to discussing any changes that may be required for the 2007/2008 financial year.
- 18 Included in the figures below and at Annex 1 are the following:
- a) Increase in average rent of 5%, increasing the average rent from £54.37 to £57.09
  - b) Increase in management and maintenance allowances of 5.2%, increasing the allowance per property from £1,353.25 to £1,423.92.
  - c) Increase in major repairs allowance of 3.4%, increasing the allowance per property from £563.88 to £583.33.
  - d) The negative housing subsidy of -£5,354k as detailed in paragraph 12.
  - e) The outcome of the review of fees and charges for 2007/08, a report on which can be found elsewhere on this agenda.
- 19 The base budget represents the ongoing cost of providing the existing approved level of service. Budgets include a 2.5% provision for pay. The amount used for price increases is 2.3% or actual where these are known.
- 20 The 2007/08 budget takes account of the following variations from the probable 2006/07 budget:

		2006/07 Estimated Outturn Q2	Variation	Variation	Variation
		£'000	£'000	£'000	%
	i) Savings				
a	Repairs and Maintenance – expenditure to be brought back in within budget (refer to second monitor report elsewhere on agenda)	4,427		-132	-2.98

		2006/07 Estimated Outturn Q2	Variation	Variation	Variation
		£'000	£'000	£'000	%
b	Energy Costs – 06/07 forecast overspend non recurring(refer to second monitor report elsewhere on agenda)	90		-46	-51.11
c	Peasholme – 06/07 forecast overspend non - recurring(refer to second monitor report elsewhere on agenda)	413		-13	-3.15
d	Temporary Accommodation – 06/07 forecast overspend non-recurring(refer to second monitor report elsewhere on agenda)	680		-43	-6.32
e	Rents income - rent increase from 1 April offset by reduced income due to sales of council homes and increased void loss from Discus Bungalows.	-22,952		-941	-4.10
f	Sheltered housing – increase in fees and charges	-419		-37	-8.83
g	Revenue contribution to capital – reduction in contribution required.	2,016		-1,104	-54.76
	Other minor variations			-30	
h	Savings proposals			-77	
				<u>-2,423</u>	
	ii) Additional Costs				
i	Contingency - general provision for pay and prices as described in paragraph 17.	18,292	+360		+1.97
j	Decoration Allowance – 06/07 underspend non-recurring (refer to second monitor report elsewhere on agenda)	82	+19		+23.17
k	General Management	4,617			
	- Increased expenditure for IT development		+25		+0.54

		2006/07 Estimated Outturn Q2	Variation	Variation	Variation
		£'000	£'000	£'000	%
	- Removal of 05/06 carry forward for partnering work		-6		-0.13
	- Asset Management – staff vacancy savings non recurring (refer to second monitor report elsewhere on agenda)		+14		+0.30
	- Removal of 05/06 carryforward for tenant DVD		-10		-0.22
	- Removal of non recurring growth for mobile working		-25		-0.54
	- Housing Operations – staff vacancy savings and other non recurring underspends (refer to second monitor report elsewhere on agenda)		<u>+71</u>		<u>+1.54</u>
			+69		+1.49
l	Sheltered Housing – staff vacancy savings non recurring (refer to second monitor report elsewhere on agenda)	651	+23		+3.53
m	Caretaking (employees) – increased cost reflecting reduction in vacancies	164	+15		+9.15
n	HRA subsidy	4,902			
	- Increase in allowances		-784		-15.99
	- Increase in guideline rent		<u>+1,236</u>		+25.21
	- Increase in negative subsidy payment		+452		+9.22
o	Voluntary debt repayment – increase in amount as repayment towards supported capital expenditure	321	+23		+7.17
p	Reduction in Supporting People income	-973	+148		+15.21
q	Defects Act – reduction in subsidy as per DCLG schedule	-31	+29		+93.55
r	Increase in actual loan interest	1,079	+53		+4.91
s	Increase in depreciation charge due to increase in major repairs allowance from government	-4,645	+138		+2.97

		2006/07 Estimated Outturn Q2	Variation	Variation	Variation
		£'000	£'000	£'000	%
t	Interest Received – reduced revenue cash interest due to reduction in year end working balance	-318	+107		+33.65
	Other minor variations		+21		
	Variations to working balance b/f	-5,139	+304		+5.92
u	Growth proposals		+44		
			<u>1,805</u>		
	Total Net Variations		-618		
	Plus estimated balance brought forward 31.3.07		-4,835		
	To give estimated working balance at 31.3.08		-5,453		

### Budget Variations 2007/2008

21 The growth items are detailed as follows:

#### Recurring growth items

##### (a) Pay increments

Under the national pay scheme employees are entitled to an annual increment where they are not at the top of their agreed pay scales. The net cost after allowing for new starters at the lower point of the grade is £44k.

**£44,000**

**Total All Growth**

**£44,000**

22 **The savings / additional income proposals are:**

##### (a) Reduction in administrative budgets (mainly software expenditure)

This budget has previously underspent and it is now possible to reduce the budget for this expenditure.

**Saving £10,000**

**(b) Reduction in void loss**

Based on continued improvement in performance and changes resulting from the review of the voids process, to be completed in 2006/07, it is felt that further savings can be achieved.

**Saving £40,000**

**(c) Reconfiguration of Tenants Choice Team**

Relocation of Tenants Choice team to the Acomb Office to be alongside asset management group will enable the deletion of the vacant Tenants Choice Team Leader post and regrading of 2 remaining team leaders posts to reflect additional responsibility in managing the tenant's choice team.

**Saving £7,600**

**(d) Removals**

Reduction in the contingency budget for emergency accommodation for council tenants who may require temporary accommodation outside the councils usual provision.

**Saving £5,000**

**(e) HASS corporate services**

A number of savings proposals have been put forward from within corporate services on IT and HR. These services currently charge a proportion of their costs to HRA, so a proportion of any savings achieved is also attributable to HRA.

**Saving £14,000**

**Total savings / additional income**

**£76,600**

**Corporate Priorities**

23 The budget represents the opportunity to reprioritise resources towards corporate priority areas. A key example of this happening within this portfolio area is:

- The savings on administrative budgets and void loss will improve efficiency and free up more resources which can be directed towards 'improving the quality and availability of decent affordable homes in the city'

**Implications**

24 **Financial** - The result of all the variations outlined in paragraphs 17 -22 is an in-year surplus of £1,530k. The brought forward working balance of £4,835k from 2006/07 is to be used to make a revenue contribution to capital schemes of £912k. The remainder brought forward of £3,923k together with the in year surplus of £1,530k leaves a working balance of £5,453k on the account.



- 25 The HRA surplus is broadly in line with that forecast in the HRA business plan, a report on which can be found elsewhere on the agenda. It is therefore suggested that the HRA surplus, after using £912k as a revenue contribution, remains on the account to be reviewed once the HRA business plan is updated to reflect both the budget detailed in this report and the 06/07 outturn position. Members are reminded that the HRA surplus is needed to fund future years in line with the Business Plan approved at Housing EMAP in July 2005.
- 26 **Human Resources (HR)** – There will be a reduction in 1 FTE (post currently vacant) and re-grading of 2 FTE's to reflect additional responsibilities.
- 27 There are no Equalities, Legal, Crime and Disorder, Information Technology (IT), Property or Other implications.

### **Risk Management**

- 28 Key reporting mechanisms to Members on budget matters will continue to be through two mid-year monitoring reports and the final Revenue Outturn report for the year. These reports will also address the progress made on investments and savings included in the budgets.
29. The budget setting process always entails a degree of risk as managers attempt to assess known and uncertain future events. This year has demonstrated the difficulty of achieving this. As with any budget the key to mitigating risk is prompt monitoring and appropriate management control. As such updated figures and revised corrective actions will be monitored via Directorate Management Teams, Corporate Management Team and the monitor reports during the year.

### **Recommendations**

- 30 The Executive Member is asked to consider the budget proposals for Housing Revenue Account for 2007/08 contained in this report and listed below and provide comments to be submitted to the Budget Executive on 16 January 2007.
- 2007/2008 Estimate as set out in paragraphs 17 – 20 and Annex 1.
  - Growth proposals as set out in paragraph 21.
  - Savings / additional income proposals as set out in paragraph 22.
  - The brought forward surplus of £4,835k is included within next financial year to be used as outlined in paragraphs 24 -25.

Reason: to ensure a balanced 2007/08 HRA budget is submitted to the Executive.

**Contact Details**

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**Report Approved**  **Date** 20/11/2006

**Specialist Implications Officer(s)** *None*

**Wards Affected:**

**All**

**For further information please contact the author of the report**

**Background Papers:**

Budget Files

**Annexes**

Annex 1 – Housing Revenue Account  
Annex 2 – 2007/08 HRA service plan stage 1