

Report for Resolution

Report to Cabinet
16 February 2011

Report of Director of Regeneration & Development and Chief Financial Officer

Subject Housing Revenue Account Budget 2011/12

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Purpose

The purpose of this report is to present the Housing Revenue Account (HRA) budgets for 2011/12 for the approval of the Cabinet and recommendation to Council.

Recommendations

That Cabinet recommends to the Council that they approve:

1. The Housing Revenue Account budgets for 2011/12, as shown in Table 1, or as amended;
2. The minimum level of HRA Balances as £2.6m as advised by the Chief Financial Officer and shown in Appendix 2.

Financial Consequences

This report sets the budget for the Housing Revenue Account for 2011/12 financial year.

Risk Assessment

This is set out in Appendix 3 and informs the Chief Financial Officer's advice.

Cabinet Members

Councillor Arthur - Deputy Leader and Housing
Councillor Waters - Resources, Performance and Shared Services

Corporate Objective/Service Plan Priority

Strive for sufficient, good quality, affordable housing, providing choice and accessibility.

Contact Officers

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Background Papers

Budget working papers held in Finance

Report

Introduction

1. The Housing Revenue Account (HRA) is a “ring fenced” account that the authority must maintain in relation to its Council housing stock. The HRA must fund all expenditure associated with the management and maintenance of the housing stock.
2. The HRA is a complex account, the format of which is prescribed by Government. For ease of understanding the financial information in this report is provided in an analysis format focusing on service expenditure. The statutory HRA is supplied in Appendix 1.
3. The proposed budgets have been drawn up within the framework of the Corporate Plan, Corporate Medium Term Financial Strategy (MTFS), the Neighbourhood & Strategic Housing Service’s Service Plan, the HRA Business Plan, and the Housing Asset Management Plan.

Summary HRA Budget 2010/11 into 2011/12

4. The following table shows the proposed budget in summarised statutory form. The budget is shown in further detail in Appendix 1.

TABLE 1

Best Value Division of Service	2010/11 Original Budget	2011/12 Draft Budget
Repairs & Maintenance	14,495,976	13,321,921
Rents, Rates, & Other Property Costs	6,126,190	6,175,847
General Management	9,551,074	9,635,346
Special Services	5,374,033	5,841,691
Depreciation & Impairment	10,891,900	14,600,640
Provision for Bad Debts	150,000	205,000
Dwelling Rents	(48,219,460)	(52,048,674)
Garage & Other Property Rents	(2,258,041)	(2,298,601)
Housing Subsidy	5,932,400	8,058,200
Service Charges	(2,958,590)	(9,518,994)
Miscellaneous Income	(5,978,675)	(175)
Adjustments & Financing Items	4,456,300	5,551,050
Amenities shared by whole community	(499,430)	(499,430)
Interest Received	(115,240)	(114,740)
Total HRA (Surplus)/Deficit	(3,051,563)	(1,090,919)

5. In broad terms, the movement from £3.05m surplus to £1.09m surplus can be analysed as follows:

TABLE 2

Item	Budget Movement
Base Budget 2010/11	(3,051,563)
Additional income	(4,131,570)
Discretionary Growth	2,655,858
Inflation	385,584
Reduced Income	468,597
Savings	(2,036,537)
T&E Programme	(207,861)
Unavoidable Growth	4,826,573
BUDGET 2011/12	(1,090,919)

6. For management purposes, the HRA is divided into four divisions of service. Appendix 1 shows the proposed budget movements within each division of service. The following paragraphs and tables set out the reasons for significant movements, which make up the movements summarised above.

General Management

7. General Management covers services and other operational costs provided to all tenants as a whole.
8. Budget movements proposed are shown below.

TABLE 3

Reason for Movement	Budget £	Description
Increased Income	(2,403)	Increase in service charges
Increased Income	2,000	Net impact of stock appropriation from GF
Reduced Income	281,337	Reduction in government grants
Savings	(244,732)	Decrease in risk-assessed HRA Contingency
Savings	(281,515)	Decrease in costs funded from government grants
Savings	(102,685)	Corporate Management Team Budget Reviews
Savings	(100,056)	Transformation & Efficiency Programme
Savings	(40,488)	Miscellaneous efficiencies & budget reductions
Recommended Growth	99,960	Miscellaneous budget shortfalls/omissions remedied
Inflation	99,799	Pay Inflation
Inflation	7,295	Other Inflation

Special Services

9. Special Services covers services provided to groups of tenants. Many of these services are funded through service charges which are designed to recover the costs of each service from those tenants benefiting.
10. Budget movements proposed are shown below.

TABLE 4

Reason for Movement	Budget £	Description
Increased Income	910	Net impact of stock appropriation from GF
Reduced Income	18,610	Other reductions in service charges
Savings	(22,950)	Corporate Management Team Budget Reviews
Savings	(100,000)	Decrease in communal aerial costs as digitalised
Savings	(54,034)	Miscellaneous efficiencies & budget reductions
Recommended Growth	62,910	Increase in Community Alarm costs
Recommended Growth	34,888	Increase in Sheltered Housing costs
Inflation	6,525	Pay Inflation
Inflation	233,495	Other Inflation

Repairs & Maintenance

11. Repairs & Maintenance covers day-to-day responsive repairs and some planned maintenance of the housing stock.
12. Budget movements proposed are shown below.

TABLE 5

Reason for Movement	Budget £	Description
Increased Income	145,000	Net impact of stock appropriation from GF
Savings	(996,955)	Decrease in Repairs as contracts now resolved
Savings	(570)	Miscellaneous efficiencies & budget reductions
Inflation	38,470	Pay Inflation

HRA Financing Items

13. HRA Financing Items covers all other transactions in the HRA, including income, capital charges, and Housing Subsidy.
14. Movements in Dwelling Rent and Service Charge income budgets are based upon the rates of increase set out in the report elsewhere on this agenda.
15. There are large technical accounting movements proposed in budgets for Housing Subsidy, Depreciation, and other financing items as a result of the outcome of the Housing Subsidy Determination.

16. The Revenue Contribution to Capital Outlay finances the Housing Capital Programme which is the subject of a separate report on this agenda.
17. Budget movements proposed are shown below.

TABLE 6

Reason for Movement	Budget £	Description
Unavoidable Growth	2,700,390	Increase in cost of capital (interest & depreciation)
Unavoidable Growth	2,125,800	Increase in negative Housing Subsidy
Increased Income	(3,380,814)	Increase in tenants' rents including appropriation of stock from General Fund
Increased Income	(411,630)	Increase in service charges
Increased Income	(438,713)	Net increase in rent from appropriated stock
Increased Income	(45,920)	Increase in non-dwelling rents
Reduced Income	110,750	Reduction in communal aerial charges as costs reduced
Reduced Income	57,900	Other reductions in service charges
Savings	(30)	Corporate Management Team Budget Review
Savings	(300,000)	Capital interest adjustment
Recommended Growth	2,403,100	Increase in Revenue Contribution to Capital Outlay to match Capital Plan 2011/12
Recommended Growth	55,000	Miscellaneous budget shortfalls/omissions remedied

18. The Revenue Contribution to Capital Outlay has increased in order to fund major works, following the withdrawal of £2.3m Supported Capital Expenditure government funding towards the Decent Homes programme. This is consistent with the requirements of the Housing Capital Plan & Programme 2011/12.
19. The increase in rent income is calculated in line with the Government's Rent Restructuring policy and is based on an average increase of 7.58% from April 2011, and also includes additional rental income from stock to be appropriated from the General Fund.

HRA Balances

20. The proposed budgets will impact on the HRA Balance as follows:

TABLE 7

Item	£000s
Brought Forward from 2009/10	(5,439)
Budgeted use of balances 2010/11	(3,052)
Forecast Outturn 2010/11	(1,499)
Carried Forward to 2011/12	(9,990)
Draft Budget 2011/12	(1,091)
Carried Forward to 2012/13	(11,081)

21. Potential future uses of the HRA Balance are outlined below.

Financial Planning for the HRA

22. The Medium Term Financial Strategy (MTFS) includes projections of HRA income, expenditure and balances. The impact of changes in the anticipated 2010/11 outturn and 2011/12 budget are as follows:

TABLE 8

Housing Revenue Account Balances					
Item	2011/12 Budget £000s	2012/13 Budget £000s	2013/14 Budget £000s	2014/15 Budget £000s	2015/16 Budget £000s
Balance Brought Forward	(9,990)	(11,081)	(12,072)	(14,167)	(15,299)
Budget Outturn	(1,091)	(991)	(2,095)	(1,132)	(140)
Carried Forward to 2011/12	(11,081)	(12,072)	(14,167)	(15,299)	(15,439)

23. The MTFS for the HRA shows increasing revenue balances. However, the government is planning to implement "HRA Self-Financing" from April 2012.
24. The impact of "HRA Self-Financing" will be analysed through the use of the HRA 30-Year Business Plan. It will involve the council swapping increasing negative Housing Subsidy payments for additional debt, on which the cost of repayments will decrease over time.
25. HRA revenue balances will be able to be applied to repay debt early and/or to support additional investment in maintenance and improvement of the stock, at the council's discretion.
26. The MTFS will be updated, once the government's proposals have been fully analysed, to show more meaningfully the impact of Self-Financing on the HRA, and the changes in income and expenditure levels arising.

Report by the Chief Financial Officer on the robustness of estimates, reserves and balances

27. Section 25 of the Local Government Act 2003 requires that the Chief Financial Officer of the Council (which in the case of Norwich City Council is the Head of Finance) reports to members on the robustness of the budget estimates and the adequacy of Council's reserves.
28. The Head of Finance is required to provide professional advice to the Council on the two above matters and is expected to address issues of risk and uncertainty.

Estimates

29. In the current budget round the budget process is being integrated with the service planning process thus ensuring a strong link between the Council's priorities and the financial resources available to deliver them. This process has been further enhanced by holding a series of Corporate Management

Team budget review meetings. As with all future estimates there is a level of uncertainty and this has been taken into account when assessing the levels of reserves.

30. Allowing for the above comment on uncertainty it is the opinion of the Head of Finance that in the budgetary process all reasonable steps have been taken to ensure the robustness of the budget.

Reserves

31. A risk assessment has been undertaken to determine the level of general reserves required by the Council, attached as Appendix 2.
32. In making a recommendation for the level of reserves the Head of Finance has followed guidance in the CIPFA LAAP Bulletin 77 – Guidance notes on Local Authorities Reserves and Balances.
33. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
34. Earmarked reserves remain legally part of the General Fund although they are accounted for separately.
35. There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:
 - the balanced budget requirement (England, Scotland and Wales) (sections 32, 43 and 93 of the Local Government Finance Act 1992)
 - Chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003 when the authority is considering its budget requirement (England and Wales))
 - the requirements of the Prudential Code
 - auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.
36. Whilst it is primarily the responsibility of the local authority and its chief financial officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

Role of the Chief Finance Officer

37. Within the existing statutory and regulatory framework, it is the responsibility of the chief finance officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.
38. The risk analysis attached as Appendix 2 shows that an adequate level of HRA reserves for the Council will be in the order of £2.6 million.

Total Housing Revenue Account									
Subjective Analysis	Base Budget	External Factor Growth	External Factor Savings	Internal Factor Growth	Internal Factor Savings	Inflation	Budget Transfers	Transformation Programme	2011/12 Draft Budget
Employees	6,938,468	-	(271,845)	49,311	(2,029)	185,511	114,680	(51,006)	6,963,090
Premises	20,543,912	51,137	(15,272)	1,127,506	(994,473)	239,741	(38,260)	(4,860)	20,909,431
Transport	167,240	-	(4,530)	4,840	(880)	215	-	(2,590)	164,295
Supplies & Services	3,728,075	66,480	(15,340)	58,795	(1,525,622)	36,938	(62,070)	(139,405)	2,147,851
Third Party Payments	30,000	-	-	2,950	(11,250)	-	4,700	-	26,400
Recharge Expenditure	7,650,139	-	-	-	(118,876)	-	(12,650)	(10,000)	7,508,613
Capital Charges	12,713,300	2,754,140	(340,250)	-	(13,500)	-	-	-	15,113,690
Receipts	(61,084,878)	172,240	(3,527,624)	21,808	(678,450)	-	(6,400)	-	(65,103,304)
Government Grants	5,595,590	2,320,500	142,110	-	-	-	-	-	8,058,200
Recharge Income	(1,898,230)	-	(55,473)	(2,403)	-	-	-	-	(1,956,106)
Rev Contribs to Capital	2,634,900	-	-	2,403,100	-	-	-	-	5,038,000
Centrally Managed	38,921	-	-	-	-	-	-	-	38,921
Total HRA (Surplus)/Deficit	(2,942,563)	5,364,497	(4,088,224)	3,665,907	(3,345,080)	462,405	-	(207,861)	(1,090,919)

General Management									
Subjective Analysis	Base Budget	External Factor Growth	External Factor Savings	Internal Factor Growth	Internal Factor Savings	Inflation	Budget Transfers	Transformation Programme	2011/12 Draft Budget
Employees	5,080,116	-	(271,845)	49,311	2,320	178,986	115,670	(38,006)	5,116,552
Premises	570,540	2,527	(6,887)	9,183	(12,932)	13,831	-	-	576,262
Transport	135,060	-	(4,530)	650	(10)	-	-	(1,400)	129,770
Supplies & Services	1,459,817	6,620	(15,340)	58,795	(421,232)	35,000	256,230	(135,475)	1,244,415
Third Party Payments	30,000	-	-	-	-	-	(30,000)	-	-
Recharge Expenditure	4,579,079	-	-	-	(118,876)	-	(12,650)	(10,000)	4,437,553
Receipts	(459,918)	-	-	9,888	-	-	37,500	-	(412,530)
Government Grants	(336,810)	-	336,810	-	-	-	-	-	-
Recharge Income	(1,398,800)	-	(55,473)	(2,403)	-	-	-	-	(1,456,676)
Total General Management	9,659,084	9,147	(17,265)	125,424	(550,730)	227,817	366,750	(184,881)	9,635,346

Special Services									
Subjective Analysis	Base Budget	External Factor Growth	External Factor Savings	Internal Factor Growth	Internal Factor Savings	Inflation	Budget Transfers	Transformation Programme	2011/12 Draft Budget
Employees	1,858,352	-	-	-	(4,349)	6,525	(990)	(13,000)	1,846,538
Premises	3,103,877	18,610	(8,385)	66,620	(17,880)	225,910	(38,260)	(4,830)	3,345,662
Transport	32,180	-	-	4,190	(870)	215	-	(1,190)	34,525
Supplies & Services	593,258	4,860	-	-	(104,390)	1,938	1,700	(3,930)	493,436
Third Party Payments	-	-	-	2,950	(11,250)	-	34,700	-	26,400
Recharge Expenditure	652,110	-	-	-	-	-	-	-	652,110
Receipts	(864,754)	6,690	-	11,920	-	-	289,164	-	(556,980)
Total Special Services	5,375,023	30,160	(8,385)	85,680	(138,739)	234,588	286,314	(22,950)	5,841,691

Repairs & Maintenance									
Subjective Analysis	Base Budget	External Factor Growth	External Factor Savings	Internal Factor Growth	Internal Factor Savings	Inflation	Budget Transfers	Transformation Programme	2011/12 Draft Budget
Premises	10,743,305	30,000	-	1,051,703	(973,348)	-	-	-	10,851,660
Supplies & Services	1,525,000	-	-	-	(1,000,000)	-	(360,000)	-	165,000
Recharge Expenditure	2,418,950	-	-	-	-	-	-	-	2,418,950
Receipts	(230,200)	-	-	-	77,590	-	-	-	(152,610)
Centrally Managed	38,921	-	-	-	-	-	-	-	38,921
Total Repairs & Maintenance	14,495,976	30,000	-	1,051,703	(1,895,758)	-	(360,000)	-	13,321,921

Financing Items									
Subjective Analysis	Base Budget	External Factor Growth	External Factor Savings	Internal Factor Growth	Internal Factor Savings	Inflation	Budget Transfers	Transformation Programme	2011/12 Draft Budget
Premises	6,126,190	-	-	-	9,687	-	-	(30)	6,135,847
Supplies & Services	150,000	55,000	-	-	-	-	40,000	-	245,000
Capital Charges	12,713,300	2,754,140	(340,250)	-	(13,500)	-	-	-	15,113,690
Receipts	(59,530,006)	165,550	(3,527,624)	-	(756,040)	-	(333,064)	-	(63,981,184)
Government Grants	5,932,400	2,320,500	(194,700)	-	-	-	-	-	8,058,200
Recharge Income	(499,430)	-	-	-	-	-	-	-	(499,430)
Rev Contribs to Capital	2,634,900	-	-	2,403,100	-	-	-	-	5,038,000
Total Financing Items	(32,472,646)	5,295,190	(4,062,574)	2,403,100	(759,853)	-	(293,064)	(30)	(29,889,877)

Estimate of prudent level of HRA reserves 2011/12

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<u>Description</u>	<u>Level of risk</u>	<u>Amount at risk</u>	<u>Risk</u>
Employee Costs	<i>High</i>	6,963,090	34,815
Supplies and Services	<i>High</i>	2,147,851	5,370
Premises Costs	<i>High</i>	7,587,510	18,969
Transport Costs	<i>High</i>	164,295	411
Contracted Services	<i>Medium</i>	13,321,921	99,914
Fees and Charges	<i>Medium</i>	2,298,776	34,482
Investment Income	<i>Medium</i>	114,740	3,442
Rents & Service Charges	<i>Low</i>	61,567,668	153,919
Subsidy & Finance Items	<i>Medium</i>	8,058,200	16,116
Total One Year Operational Risk			367,438
Allowing three years cover on operational risk			1,102,315
Balance Sheet risk			
Issues arising from Annual Governance Report			0
General Risk			
Unforeseen events			1,500,000
ESTIMATED REQUIRED LEVEL OF HRA RESERVES			2,602,315

Operational cost risk profiles

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		<i>Low Risk</i>	<i>Med Risk</i>	<i>High Risk</i>
Employee Costs	overspend	1.00%	2.50%	5.00%
	probability	25.0%	15.0%	10.0%
	amount at risk	17,408	26,112	34,815
Supplies and Services	overspend	1.00%	2.50%	5.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	2,148	4,027	5,370
Premises Costs	overspend	1.00%	2.50%	5.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	7,588	14,227	18,969
Transport Costs	overspend	1.00%	2.50%	5.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	164	308	411
Contracted Services	overspend	5.00%	10.00%	15.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	66,610	99,914	99,914
Fees and Charges	Shortfall	5.00%	10.00%	15.00%
	probability	25.0%	15.0%	10.0%
	amount at risk	28,735	34,482	34,482
Investment Income	Shortfall	10.00%	20.00%	30.00%
	probability	20.0%	15.0%	10.0%
	amount at risk	2,295	3,442	3,442
Rents & Service Charges	Shortfall	1.00%	1.50%	2.00%
	probability	25.0%	15.0%	5.0%
	amount at risk	153,919	138,527	61,568
Subsidy & Finance Items	Shortfall	1.00%	2.00%	3.00%
	probability	15.0%	10.0%	5.0%
	amount at risk	12,087	16,116	12,087