

Report for Resolution

Report to Council
21 February 2012
Report of Head of finance
Subject Housing revenue account budget 2012/13

Item
10

Purpose

To present cabinet's recommendations for the proposed Housing Revenue Account (HRA) budgets for 2012/13.

Recommendations

That council approves cabinet's recommendations of 15 February for:

1. The Housing Revenue Account budgets for 2012/13, as shown in Table 1, or as amended by the impact of the proposed rent increase as set out in paragraphs 21-30;
2. The minimum level of HRA Balances as £2.9m 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 2012/13 financial year.

Risk Assessment

This is set out in Appendix 2 and informs the chief financial officer's advice.

Cabinet Members

Councillor MacDonald - Housing

Councillor Waters - Resources, performance and shared services

Strategic Priorities

The report helps to meet the strategic priorities "Aiming for excellence – ensuring the council is efficient in its use of resources, is effective in delivering its plans, is a good employer and communicates effectively with its customers, staff and partners", "Safe and healthy neighbourhoods – working in partnership with residents to create neighbourhoods where people feel secure, where the streets are clean and well maintained, where there is good quality housing and local amenities and where there are active local communities", and "Strong and prosperous city – working to improve quality of life for residents, visitors and those who work in the city now and in the future".

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 2011/12 into 2012/13

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

HRA Budget 2011/12 to 2012/13	2011/12 £000s	2012/13 £000s	Change £000s
Repairs & Maintenance	13,322	17,511	4,189
Rents, Rates, & Other Property Costs	6,176	6,144	-32
General Management	9,635	8,798	-837
Special Services	5,842	5,696	-145
Housing Subsidy	8,058	0	-8,058
Depreciation & Impairment	14,601	27,216	12,615
Provision for Bad Debts	205	215	10
Subtotal HRA Expenditure	57,839	65,580	7,742
Dwelling Rents	-52,049	-56,088	-4,040
Garage & Other Property Rents	-2,299	-2,383	-85
Service Charges - General	-9,519	-9,785	-266
Miscellaneous Income	0	0	0
Adjustments & Financing Items	5,550	1,808	-3,741
Amenities shared by whole community	-499	-735	-235
Interest Received	-113	-150	-37
Subtotal HRA Income	-58,930	-67,333	-8,404
Contribution to/(from) HRA Balances	1,091	1,753	662
Total Housing Revenue Account	0	0	0

5. In broad terms, the £0.43m movement from £1.09m surplus to £1.52m surplus [expressed above as the contribution to/(from) HRA balances] can be analysed as follows:

Item	Movement £000s
Unavoidable Budget Movements	15,861
Increased Income	-5,423
Reduced Income	369
Savings	-13,314
Recommended Growth	1,846
Movement in HRA Surplus	- 662

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. Budget movements proposed are shown below.

General Management	£000s
Unavoidable Budget Movements:	
Payroll & Oncost Inflation	141
Non-Pay Inflation	5
Removal of one-off budgets & savings from base	-85
Increased costs for CDM & EPC fees	155
Increase in compensation, decant, and legal expenses	65
Movements between HRA divisions of service (netting to nil)	-675
Other unavoidable growth	117
Increased Income:	
Other increases in income	-4
Reduced Income:	
Other reductions in income	10
Savings:	
Transformation & Efficiency Programme (Approved)	24
CLT Budget Scrutiny savings	-153
Miscellaneous efficiencies & budget reductions	38
Recommended Growth:	
Additional Rents & Arrears staffing	37
Additional tenant engagement resources	29
Management initiatives to reduce Void repairs costs	68
Provision for corporate priority objectives	38
Co-location and interface with repairs contractor	90
Total General Management	-99

Special Services

8. 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. Budget movements proposed are shown below.

Special Services	£000s
Unavoidable Budget Movements:	
Payroll & Oncost Inflation	148
Non-Pay Inflation	225
Removal of one-off budgets & savings from base	-235
Street Cleansing (EPA), Grounds & Tree Maint. contracts	117
Movements between HRA divisions of service (netting to nil)	-17
Other unavoidable growth	8
Reduced Income:	
Other reductions in income	17
Savings:	
Transformation & Efficiency Programme (Approved)	-127
CLT Budget Scrutiny savings	-1
Sheltered Housing Service Review - reduced service costs	-594
Miscellaneous efficiencies & budget reductions	-262
Recommended Growth:	
Provision for corporate priority objectives	26
Total Special Services	-696

Repairs & Maintenance

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

Repairs & Maintenance	£000s
Unavoidable Budget Movements:	
Non-Pay Inflation	1
Provision for increase in repairs contract prices	1,867
Additional heating maintenance costs	485
Additional balcony & asphalt maintenance costs	75
Additional tower block ventilation system costs	80
Additional structural testing costs	50
Movements between HRA divisions of service (netting to nil)	602
Other unavoidable growth	19
Increased Income:	
Other increases in income	-101
Reduced Income:	
Other reductions in income	25
Savings:	
Transformation & Efficiency Programme (Approved)	-2
Maintenance to be funded from capital programme	-355
Miscellaneous efficiencies & budget reductions	-122
Recommended Growth:	

Cyclical Painting Programme	1,395
Disabled Adaptations facilitation	70
Additional Loft Insulation	40
Provision for corporate priority objectives	0
Sheltered Housing: Void remodelling & parking works	53
Total Repairs & Maintenance	4,182

HRA Financing Items

10. HRA Financing Items covers all other transactions in the HRA, including income, capital charges, and Housing Subsidy. Budget movements proposed are shown below.

Financing Items	£000s
Unavoidable Budget Movements:	
Non-Pay Inflation	126
Self-Financing: Increased interest payable on borrowing	10,578
Self-Financing: Increased provision for depreciation	2,000
Movements between HRA divisions of service (netting to nil)	92
Other unavoidable growth	97
Increased Income:	
Proceeds of 8.37% rent increase 2012/13	-4,040
Increased tenants' service charge income	-502
Other rental income increases	-90
Increased leaseholders' contributions to Major Works costs	-371
Increase in costs recharged to General Fund	-235
Other increases in income	-81
Reduced Income:	
Sheltered Housing Service Review - reduced support income	253
Other reductions in income	64
Savings:	
Transformation & Efficiency Programme (Approved)	18
Self-Financing: Removal of negative Housing Subsidy	-8,058
Self-Financing: Reduced revenue contribution to capital	-3,711
Miscellaneous efficiencies & budget reductions	-9
Total Financing Items	-4,049

11. Movements in Dwelling Rent and Service Charge income budgets are based upon the rates of increase contained in a separate report on this agenda. The impact of the 2012/13 rent increase is set out in paragraphs 21-30.
12. There are large technical accounting movements proposed in budgets for Housing Subsidy, Depreciation, and other financing items as a result of the outcome of HRA Self-Financing, which are set out in paragraphs 16-17.
13. The Revenue Contribution to Capital Outlay finances the Housing Capital Programme which is the subject of a separate report on this agenda.

HRA Balances

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

Item	£000s
Brought Forward from 2010/11	- 13,490
Budgeted contribution to balances 2011/12	- 1,090
Forecast Outturn 2011/12	- 2,821
Carried Forward to 2012/13	- 17,401
Draft Budget 2012/13	- 1,753
Carried Forward to 2013/14	- 18,922

15. Potential future uses of the HRA Balance are considered in financial planning for the HRA.

Housing Revenue Account Self-Financing

16. As set out in a separate report on this agenda, 2012/13 will be the first year of a Self-Financing HRA, in which negative Housing Subsidy will give way to repayments and interest charges on a significantly higher level of debt.
17. The budgetary impacts of HRA Self-Financing are incorporated within the budgets proposed, and are summarised below:

Self Financing	£000s
Unavoidable Budget Movements	
Self-Financing: Increased interest payable on borrowing	10,578
Self-Financing: Increased provision for depreciation	2,000
Savings	
Self-Financing: Removal of negative Housing Subsidy	-8,058
Self-Financing: Reduced revenue contribution to capital	-3,711
Movement due to HRA Self-Financing	809

Financial Planning for the HRA

18. Financial planning for the HRA will be based upon the 30-year Business Plan (BP), from which data will be extracted for the council's overall Medium Term Financial Strategy. Currently, the input from the HRA BP to the MTFS can be summarised as:

HRA MTFS (Summary)	2012/13	2013/14	2014/15	2015/16	2016/17
Balance brought forward	-17,401	-2,900	-2,900	-2,900	-2,900
Revenue outturn (before RCCO)	-1,327	-4,551	-5,406	-6,068	-6,107
Financing for capital investment	15,828	4,551	5,406	6,068	6,107
Balance carried forward	-2,900	-2,900	-2,900	-2,900	-2,900

19. The balances shown above include direct financing for the housing investment programme, and future years' outturns exclusive of revenue contributions to capital.
20. The MTFS for the HRA shows stable revenue balances, consistent with the objectives behind the BP of financing the housing investment programme while maintaining balances in excess of the minimum prudent balance assessed.

Housing Rent Increases

21. Cabinet will have considered at this meeting a report outlining options for an increase in housing rents, in compliance with the government's Rent Restructuring policy or otherwise. The draft budget provides for the Rent Restructuring increase of 8.37% being applicable.
22. The impact of other rent increase options will directly affect only the rent income budget and the contribution to HRA balances, since service charge increases have been de-linked from rents, and the responsive repairs and contribution to capital budgets will be reformulated within the draft budget totals.
23. The application of a rent increase of **6.85%** would call for the following budget amendments:

Budget Impact	£000s
Rent Income	790
Contribution to HRA balances 2012/13	(790)

24. The impact on HRA balances would be as follows:

Item	£000s
Brought Forward to 2012/13 (as Table 7)	-17,401
Draft Budget 2012/13 (as Table 7)	-1,753
Impact of reduced rent increase (as para 25)	790
Carried Forward to 2013/14	-18,364

25. The impact on the Medium Term Financial Strategy would be as follows:

HRA MTFS (Summary)	2012/13	2013/14	2014/15	2015/16	2016/17
Balance brought forward	-17,401	-2,110	-1,563	-1,172	-965
Revenue outturn (before RCCO)	-1,327	-6,968	-8,714	-10,431	-11,666
Financing for capital investment	15,828	6,923	8,709	10,440	11,646
Impact of lower rent income	790	593	395	198	0
Balance carried forward	-2,110	-1,563	-1,172	-965	-985

26. This shows that if rent income levels were to be reinstated by above-formula increases within the period of the MTFS, the loss in income would mean that balances would fall below the minimum prudent level. Levels of financing for the housing investment programme would have to be curtailed to preserve balances at a prudent level.

27. The application of a rent increase of **5.33%** would call for the following budget amendments:

Budget Impact	£000s
Rent Income	1,578
Contribution to HRA balances 2012/13	(1,578)

28. The impact on HRA balances would be as follows:

Item	£000s
Brought Forward to 2012/13 (as Table 7)	-17,401
Draft Budget 2012/13 (as Table 7)	-1,753
Impact of reduced rent increase (as para 25)	1,578
Carried Forward to 2013/14	-17,576

29. The impact on the Medium Term Financial Strategy would be as follows:

HRA MTFS (Summary)	2012/13	2013/14	2014/15	2015/16	2016/17
Balance brought forward	-17,401	-1,322	-184	601	1,005
Revenue outturn (before RCCO)	-1,327	-6,968	-8,714	-10,431	-11,666
Financing for capital investment	15,828	6,923	8,709	10,440	11,646
Impact of lower rent income	1,578	1,184	789	395	0
Balance carried forward	-1,322	-184	601	1,005	985

30. This shows that if rent income levels were to be reinstated by above-formula increases within the period of the MTFS, the loss in income would mean that balances would fall into deficit. Levels of financing for the housing investment programme would have to be heavily curtailed to preserve balances at a prudent level.

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

31. 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.
32. 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

33. 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.
34. 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

35. A risk assessment has been undertaken to determine the level of general reserves required by the Council, attached as Appendix 2.
36. 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.
37. 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.
38. Earmarked reserves remain legally part of the General Fund although they are accounted for separately.
39. 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.
40. 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

41. 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.
42. The risk analysis attached as Appendix 2 shows that an adequate level of HRA reserves for the Council will be in the order of £2.9 million.

Total Housing Revenue Account	Base Budget b/f	Payroll Inflation	Non-Pay Inflation	Unavoidable Increases	Increased Income	Decreased Income	Management Savings	T&E Savings	Recommended Growth	Transfers	Draft Budget 2012/13
Employees	7,250,151	-469,904	0	0	0	0	-17,585	0	52,086	417,668	7,232,416
Premises	20,873,731	0	334,553	2,577,004	0	0	-1,114,444	0	1,719,130	1,190	24,391,164
Transport	166,945	0	0	345	0	0	-13,030	3,080	11,970	150	169,460
Supplies & Services	1,941,861	0	0	238,343	0	0	-165,906	-25,100	489,870	100	2,479,168
Third Party Payments	26,400	0	0	0	0	0	-3,900	0	0	0	22,500
Capital Charges	16,866,879	0	0	12,615,000	0	0	0	0	0	0	29,481,879
Rev Contribs to Capital	5,009,000	0	0	-3,682,000	0	0	0	0	0	0	1,327,000
Receipts	-65,024,504	0	-220	330,225	-5,506,213	715,734	-31,165	0	30	0	-69,516,113
Government Grants	7,812,474	0	0	-8,058,200	0	6,250	0	0	0	0	-239,476
Centrally Managed	38,921	0	1,168	0	0	0	0	0	0	0	40,089
Recharge Expenditure	8,046,104	0	0	194,402	0	0	0	-393,320	0	842,870	8,690,056
Recharge Income	-3,145,706	0	0	175,442	0	3,459	0	0	0	-1,111,338	-4,078,143
Total Housing Revenue Account	-137,744	-469,904	335,501	4,390,561	-5,506,213	725,443	-1,346,030	-415,340	2,273,086	150,640	0

General Management	Base Budget b/f	Payroll Inflation	Non-Pay Inflation	Unavoidable Increases	Increased Income	Decreased Income	Management Savings	T&E Savings	Recommended Growth	Transfers	Draft Budget 2012/13
Employees	5,385,913	-175,045	0	0	0	0	-3,000	0	48,042	348,908	5,604,818
Premises	581,562	0	5,043	7,470	0	0	-16,441	0	31,090	5,650	614,374
Transport	132,420	0	0	200	0	0	-7,390	3,080	3,600	150	132,060
Supplies & Services	1,004,885	0	0	78,459	0	0	-63,460	-25,290	465,860	15,100	1,475,554
Receipts	-333,730	0	0	0	-3,600	0	0	0	0	64,900	-272,430
Government Grants	-245,726	0	0	0	0	6,250	0	0	0	0	-239,476
Recharge Expenditure	4,671,614	0	0	196,902	0	0	0	-278,320	0	0	4,590,196
Recharge Income	-2,646,276	0	0	175,442	0	3,459	0	0	0	-639,548	-3,106,923
Total General Management	8,550,662	-175,045	5,043	458,473	-3,600	9,709	-90,291	-300,530	548,592	-204,840	8,798,173

Special Services	Base Budget b/f	Payroll Inflation	Non-Pay Inflation	Unavoidable Increases	Increased Income	Decreased Income	Management Savings	T&E Savings	Recommended Growth	Transfers	Draft Budget 2012/13
Employees	1,864,238	-294,859	0	0	0	0	-14,585	0	4,044	68,760	1,627,598
Premises	3,304,662	0	202,880	87,634	0	0	-327,296	0	40	-14,880	3,253,040
Transport	34,525	0	0	145	0	0	-5,640	0	8,370	0	37,400
Supplies & Services	526,976	0	0	1,060	0	0	-42,446	190	14,010	0	499,790
Third Party Payments	26,400	0	0	0	0	0	-3,900	0	0	0	22,500
Transfer Payments	0	0	0	0	0	0	0	0	0	0	0
Receipts	-556,980	0	0	0	0	16,690	-18,510	0	0	0	-558,800
Recharge Expenditure	948,900	0	0	-2,500	0	0	0	-131,690	0	0	814,710
Total Special Services	6,148,721	-294,859	202,880	86,339	0	16,690	-412,377	-131,500	26,464	53,880	5,696,238

Repairs & Maintenance	Base Budget b/f	Payroll Inflation	Non-Pay Inflation	Unavoidable Increases	Increased Income	Decreased Income	Management Savings	T&E Savings	Recommended Growth	Transfers	Draft Budget 2012/13
Premises	10,851,660	0	0	2,445,900	0	0	-417,220	0	1,688,000	10,420	14,578,760
Supplies & Services	165,000	0	0	0	0	0	-60,000	0	0	-15,000	90,000
Receipts	-152,610	0	0	0	-101,190	25,460	0	0	0	0	-228,340
Centrally Managed	38,921	0	1,168	0	0	0	0	0	0	0	40,089
Recharge Expenditure	2,425,590	0	0	0	0	0	0	-1,600	0	606,370	3,030,360
Total Repairs & Maintenance	13,328,561	0	1,168	2,445,900	-101,190	25,460	-477,220	-1,600	1,688,000	601,790	17,510,869

Financing Items	Base Budget b/f	Payroll Inflation	Non-Pay Inflation	Unavoidable Increases	Increased Income	Decreased Income	Management Savings	T&E Savings	Recommended Growth	Transfers	Draft Budget 2012/13
Premises	6,135,847	0	126,630	36,000	0	0	-353,487	0	0	0	5,944,990
Supplies & Services	245,000	0	0	158,824	0	0	0	0	10,000	0	413,824
Transfer Payments	0	0	0	0	0	0	0	0	0	0	0
Capital Charges	16,866,879	0	0	12,615,000	0	0	0	0	0	0	29,481,879
Rev Contribs to Capital	5,009,000	0	0	-3,682,000	0	0	0	0	0	0	1,327,000
Receipts	-63,981,184	0	-220	330,225	-5,401,423	673,584	-12,655	0	30	-64,900	-68,456,543
Government Grants	8,058,200	0	0	-8,058,200	0	0	0	0	0	0	0
Recharge Expenditure	0	0	0	0	0	0	0	18,290	0	236,500	254,790
Recharge Income	-499,430	0	0	0	0	0	0	0	0	-471,790	-971,220
Total Financing Items	-28,165,688	0	126,410	1,399,849	-5,401,423	673,584	-366,142	18,290	10,030	-300,190	-32,005,280

Estimate of prudent level of HRA reserves 2012/13

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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>	7,250,151	36,251
Supplies and Services	<i>High</i>	1,941,861	4,855
Premises Costs	<i>High</i>	20,873,731	52,184
Transport Costs	<i>High</i>	166,945	417
Contracted Services	<i>Medium</i>	15,498,819	116,241
Fees and Charges	<i>Medium</i>	2,383,135	35,747
Investment Income	<i>Medium</i>	150,000	4,500
Rents & Service Charges	<i>Low</i>	68,256,933	170,642
Subsidy & Finance Items	<i>Medium</i>	27,418,640	54,837
Total One Year Operational Risk			475,675
Allowing three years cover on operational risk			1,427,025
Balance Sheet risk			
Issues arising from Annual Governance Report			0
General Risk			
Unforeseen events			1,500,000
ESTIMATED REQUIRED LEVEL OF HRA RESERVES			2,927,025

Operational cost risk profiles

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		<i>Low Risk</i>	<i>Med Risk</i>	<i>High Risk</i>
Employee Costs	overspend probability amount at risk	1.00% 25.0% 18,125	2.50% 15.0% 27,188	5.00% 10.0% 36,251
Supplies and Services	overspend probability amount at risk	1.00% 10.0% 1,942	2.50% 7.5% 3,641	5.00% 5.0% 4,855
Premises Costs	overspend probability amount at risk	1.00% 10.0% 20,874	2.50% 7.5% 39,138	5.00% 5.0% 52,184
Transport Costs	overspend probability amount at risk	1.00% 10.0% 167	2.50% 7.5% 313	5.00% 5.0% 417
Contracted Services	overspend probability amount at risk	5.00% 10.0% 77,494	10.00% 7.5% 116,241	15.00% 5.0% 116,241
Fees and Charges	Shortfall probability amount at risk	5.00% 25.0% 29,789	10.00% 15.0% 35,747	15.00% 10.0% 35,747
Investment Income	Shortfall probability amount at risk	10.00% 20.0% 3,000	20.00% 15.0% 4,500	30.00% 10.0% 4,500
Rents & Service Charges	Shortfall probability amount at risk	1.00% 25.0% 170,642	1.50% 15.0% 153,578	2.00% 5.0% 68,257
Subsidy & Finance Items	Shortfall probability amount at risk	1.00% 15.0% 41,128	2.00% 10.0% 54,837	3.00% 5.0% 41,128