

Committee:	Executive	Agenda Item No.:	
Date:	20 <sup>th</sup> December 2010	Status	Open
Subject:	Housing Revenue Account Budgets – 2010/11 Estimated Outturn & 2011/12		
Report by:	Director Of Resources		
Other Officers Involved	Head of Housing, Head of Finance & Revenues, Chief Accountant, Principal Accountant		
Director	Director Of Resources		
Relevant Portfolio Holder	Leader of the Council		

### **RELEVANT CORPORATE AIMS**

STRATEGIC ORGANISATIONAL DEVELOPMENT – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources.

### **TARGETS**

The development of Policy Led Budgeting will help to inform future spending plans and assist in the delivery of annual efficiency gain targets.

### **VALUE FOR MONEY**

The Budget Process challenges existing spending levels and new spending proposals to ensure that resources are effectively used and directed towards the delivery of the Corporate Aims.

### **Introduction**

1. This report addresses the budget issues associated with the Housing Revenue Account (HRA) for Members consideration and approval, covering the following:
  - 2010/11 estimated Outturn Budget – this is the current year budget revised to take account of changes during the financial year that will end on 31<sup>st</sup> March 2011
  - 2011/12 Original Budget – this is the proposed budget for the next financial year, funded by the rent increase, and will commence from 1<sup>st</sup> April 2011
  - The proposed increases on rents and charges for 2011/12.
2. The summary of the HRA budgets for both years are shown as an attachment to the report.

## Estimated Outturn 2010/11

3. The estimated outturn for 2010/11 anticipates an operating surplus of £78,075, compared to an original estimated surplus of £191,614. The most significant changes between the two budgets are:
- Staffing costs have increased due to the impact of Job Evaluation;
  - Buy out of tool allowance;
  - Increase in rental income due to the voids percentage being lower than anticipated;
  - Staff structure changes as approved by Council on 17<sup>th</sup> December 2010;
  - Increase in bad debt provision, as detailed below.

### Bad Debt Provision

4. As part of preparing the Statement of Accounts for 2009/10 the Council increased its provision for bad debts by £386,000. The summary details are shown below:

Type of debt	Balance at 31.3.10 £'000	Bad debt provision £'000	% covered by bad debt provision
Current	587	197	34%
Former	568	466	82%
<b>Total</b>	<b>1,155</b>	<b>663</b>	

5. The External Auditor assessed this as part of the audit of the accounts and commented in the Annual Governance report as follows:

*In relation to bad debt provisions - there has been some progress in this area but issues still remain. Former Tenant Arrears (FTAs) – As this category of debt is difficult to collect we would expect 100% provision unless there is evidence of collectability. We estimate that you may need to increase your provision in relation to former tenant arrears by approximately £102k.*

6. Rent arrears is subject to a number of forms of scrutiny:
- Improvement Scrutiny Committee is reviewing currently. Their recommendations are expected in the last quarter of 2010/11;
  - Quarterly reports to Executive;
  - Performance indicators;
  - Quarterly to the Audit Committee (from December 2010)
7. The latest debt analysis reported to the Audit Committee showed that the value of historic FTAs had dropped by 10% from their opening balance. If the bad debt provision was increased from 82% to 90% this would amount to £45,000. New FTA debt has been added during the year & may amount to £90,000 by the end of the financial year. If a similar approach was adopted to provide for 90% of this debt an increase in the provision by £81,000. The bad debt provision would need to be increased to reflect both these changes by £126,000.

8. Current arrears continue to follow pattern of reducing in the final quarter of the year to provide a closing balance that is reduced by 10% of the opening balance. If this were to occur this year the closing balance would be approximately £500,000. Continuing with the same level of provision for the current arrears would see the sum provided being reduced by £27,000.
9. The overall level of change would therefore be a net increase in the bad debt provision of £99,000.

#### Revenue Contributions to Capital Outlay (RCCO)

10. The Estimated Outturn assumes a £650,000 revenue contribution to capital (RCCO) as per the original budget. Officers are currently evaluating the level of in year spend on capital. This may lead to an increase in RCCO funding or borrowing or reprofiling of expenditure. An increase in RCCO would require savings to prevent any impact on the working balance. No costs of borrowing have been provided for in the budgets shown. Future reports will update members with options as required.

#### Working Balance

11. The working balance brought forward from 2009/10 was £629,065. After taking account of the projected surplus of £78,075, this produces an anticipated working balance at 31<sup>st</sup> March 2011 of £707,139.

#### Housing Revenue Account Budget 2011/12

12. The HRA budget mirror in many ways the General Fund budget. It therefore includes the following budget changes:
  - Reduction in investment interest;
  - Support charge allocations have been updated;
  - Incremental progression only in staffing costs (no pay award).
13. In 2010/11 the budget includes a vacancy factor. The staff budgets have all been based on the Council's approved structure and assume that all posts are filled. In reality we know there will be staff changes in the year and the vacancies generate a saving to the budget. Historically, this has been at least achieved 3% and as such has been built into the budget. The staffing report to Council on 17<sup>th</sup> December 2010 has disestablished a number of the posts that have been vacant pending a review. Therefore the vacancy factor has been reduced to £30,000 to take this into account and the current economic climate that is suppressing the usual movement of staff.
14. The HRA budget also has a number of budget areas that are complex and as such these are detailed below.
15. The contribution from the HRA towards external interest payable is £363,290.

## Housing Subsidy

16. The Housing Subsidy is a misleading term as it is actually a payment that the Council is required to make to the Secretary of State from the Housing Revenue Account. It continues to exceed £5.3m. This is the indicative value as the Determination is subject to consultation that is finalised in early February.

## Rent setting

17. Under the Rent Restructuring calculations for 2011/12, the range of rent increases range between 5.33% (£4.44 per week) and 9.54% (£4.30 per week) with an overall average of 8.21%. This equates to an average weekly rent per dwelling of £68.20 (2010/11: £63.03), based on 48 weeks.
18. Unlike Council Tax that the Government wish to see capped at 0% and will support such a decision with a grant to ensure the Council is not worse off, no such financial support from Government exists to cap rent levels, the Council would need to absorb additional costs of over £500,000 if it were to consider such an option. The current level of the working balances does not support such a change.
19. Recent rent increases within Bolsover (based upon the Rent Restructuring Guidelines) have been as follows:

Financial Years	Average Rent Increase
2004/05	6.90%
2005/06	6.93%
2006/07	7.40%
2007/08	5.00% *
2008/09	7.31%
2009/10	7.04% (then revised to 3.1%)
2010/11	3.65%

\* Without the Government recommended cap of 5% - the average rent increase (in accordance with Rent Restructuring Guidelines) would have been 8%.

20. For the 2011/12 budget calculations the rent convergence is set at 2015/16.
21. The recently announced Localism Bill has an impact on the HRA. The Bill contains enabling clauses rather than details about the terms of future HRA funding but the key points from April 2012 are:
- The abolition of the HRA Subsidy system
  - The government proposes to implement self-financing, using the method for calculating debt which was consulted upon in March
  - Rents will be assumed on the basis of the existing social rent policy, and 2015/16 convergence.

## Fees and charges

22. The Council retains discretion regarding future increases on garage rents and other services. Last year PPMG 2 reviewed Fees and Charges and proposed that

wherever possible, the Council should seek to move as quickly as possible to a position where charges for such services reflect the cost of providing these services.

23. Based on last year's discussions with Cabinet Members that the Council should accept a methodology where charges made to tenants should reflect the cost of providing the services. In many cases, the actual charge made to tenants was a nominal charge only, and members recognised that the move to full charging should be phased over a number of years. The revised pricing reflects this continuing approach. These changes have not been built into the budget figures but their impact will be to increase the surplus each year.
24. The majority of warden services are funded through a contract with the Supporting People Team at Derbyshire County Council. Indications are that the contract sum will have no inflationary uplift; however, this is yet to be confirmed by the County Council. It is expected that Supporting People funds will be subject to a reduction in funding. Further details will be reported when this is known.
25. The proposed fees and charges are based on these charges being capped at this level for those people funded through the Supporting People Contract.
26. However there are a number of people who self-fund the supporting people services and the Council does not currently pass on the full cost of these services to customers. It is proposed to increase these charges for 2011/12 by £2.01 (34%) for the static warden service and £0.45 (21%) for the mobile warden service. Tenants on benefits will find that some or all of this cost is covered by benefits.
27. Similarly, heating costs are currently subsidised to a value of over £168,000, with less than 50% of the total cost being recharged to tenants.
28. The increases in charges shown below carry forward the methodology previously adopted and applies this to the increase for 2011/12

Each charge shows:

- a. The current charge:
- b. The proposed charge
- c. The increase – in financial and percentages.
- d. Information on the cost of provision
- e. The level of subsidy on 2011/12 – per user per week (ie d minus b)

And at the end of each section is information on

- f. The loss income to the Council if the changes are not implemented (impact of no change) shown for a full year, and
- g. The total subsidy for the services (i.e. e. multiplied by the number of chargeable weeks and the number of customers)

### **Section a - Charges made over 48 weeks**

Types of charge	Current charge per week (£)	Proposed charge per week (£)	Increase (£ / %)	Cost of provision (£)	2011/12 subsidy (£)
<b>a. HEATING</b>				Estimate	
Bedsit (sheltered)	5.90	6.89	0.99 / 17%	11.73	4.84
1 bed flat (sheltered)	8.37	9.78	1.41 / 17%	16.63	6.85
Wardens Flat	15.60	18.23	2.63 / 17%	30.99	12.76
1 bed bungalow	9.29	10.85	1.56 / 17%	18.45	7.60
2 bed flat	12.36	14.44	2.08 / 17%	25.55	11.11
2 bed bungalow	14.00	16.36	2.36 / 17%	27.81	11.45
					Total subsidy
	<b>Impact of no change</b>			<b>£36,927</b>	<b>£168,134</b>
<b>b. WARDEN SERVICES</b>					
Static (self funded)	5.85	7.86	2.01 / 34%	22.79	14.93
Mobile Warden (self funded)	2.16	2.61	0.45 / 21%	4.84	2.23
					Total subsidy
	<b>Impact of no change</b>			<b>£42,989</b>	<b>£115,843</b>
<b>c. WARDEN SERVICES</b>					
Static (SP funded)	22.79	22.79	Contract	22.79	14.93
Mobile Warden (SP)	4.84	4.84	Contract	4.84	2.23
					Total subsidy
	<b>Impact of no change</b>			<b>n/a</b>	<b>n/a</b>
<b>d. SPECIAL SERVICES</b>					
Special Services	6.17	8.55	2.38 / 38%	21.90	13.35
					Total subsidy
	<b>Impact of no change</b>			<b>£32,111</b>	<b>£120,192</b>
<b>e. BUGGY PARKING (inc electricity)</b>					
Buggy parking	2.50	2.75	0.25 / 10%	n/a	n/a
					Total subsidy
	<b>Impact of no change</b>			<b>£240</b>	<b>£0</b>
<b>f. GARAGES* (no subsidy)</b>					
Garages (direct debit)	6.50	7.00	0.50 / 7.7%	7.00 est	n/a
Garages (other)	8.00	9.00	1.00/12.5%	9.00 est	n/a
* note VAT will be charged to non-tenants.					
					Total subsidy
	<b>Impact of no change</b>			<b>£17,160</b>	<b>£0</b>

**Section b - Charges made over 52 weeks – not subsidised**

Types of charge	Current charge per week (£)	Proposed charge per week (£)	Increase (£ / %)	Cost of provision (£)	2011/12 subsidy (£)
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Lifeline – Bronze	3.50	3.75	0.25 / 3.8%	3.75 est	0
Lifeline – Gold	5.50	5.80	0.30 / 5.5%	5.80 est	0
Lifeline – RSL	2.80	3.75	0.95 / 34%	3.75 est	0
					Total subsidy
	<b>Impact of no change</b>			<b>£17,160</b>	<b>£0</b>

### Section c - Annual Charge – not subsidised

Types of charge	Current charge per year (£)	Proposed charge per year (£)	Increase (£ / %)	Cost of provision (£)	2011/12 subsidy (£)
Garage Plot *	120	140	20 / 17%	140 est	0
* note VAT will be charged to non-tenants.					
					Total subsidy
	<b>Impact of no change</b>			<b>£6,000 est</b>	<b>£0</b>

29. The Special Services Charge includes the costs incurred from living in a sheltered housing scheme; this includes heating and lighting of communal areas, a contribution to the cost of a warden, furniture to lounges, carpeting of communal areas and cleaning. For 2011/12 this will be an increase of £2.38 (38%) per week per tenant, and will increase income by £32,111. Some tenants will have this covered by benefit payments. The costs of the service will also be reviewed to generate savings.
30. Work will continue to review the heating and special services charges across sheltered schemes moving towards fair scheme of charging.
31. The Council also offers a lifeline service to people who are not council tenants (i.e. Housing Association Tenants and Owner Occupiers).

### Efficiency Gains

32. The previous target for efficiency gains has now been removed by the Government. The Council will continue to be challenging itself to deliver efficiencies as to maintain development of services. Mobile working is the current key project at this time.

### Revenue Contributions to Capital Outlay (RCCO)

33. Based on the issued detailed for the Estimated Outturn and the potential pressures on future capital expenditure based on limited revenue contribution to capital (RCCO), future years budgets show a £75,000 increase to the original sum of £650,000. Efficiencies from mobile working will contribute future years saving so reducing the impact on the working balance.

### Working Balance

34. A report to the Executive on 25<sup>th</sup> September 2006 recommended that the minimum working balance on the HRA should not fall below £1 million in order for the Council to position itself within the median value for other District Councils. The budget

proposed seeks to reinstate this over a 3 year period. Increases in fees and charges will bring this achievement forward.

35. In addition, the External Auditor did comment in the Annual Governance report as follows:

*In light of the projected impact on HRA balances, you changed part of your approach to financing capital expenditure. This left year end balances broadly in line with previous years at £629k. This is still at a low level in light of the financial risks facing the HRA and we note your plan to rebuild balances over the period of the MTFP.*

36.

#### Future reporting

37. A sensitivity analysis based on the approved budget will be reported to Members prior to the formal rent setting, reflecting the results of the finalised rent determination.
38. The HRA budget will be reported to the Safe and Inclusive Scrutiny Committee on 5<sup>th</sup> January 2011. Their consideration will then be finalised at their meeting on 1<sup>st</sup> February 2011 and reported to the Executive on 7<sup>th</sup> February 2011.

#### IMPLICATONS

Financial: The proposed HRA Budget for 2011/12 forecasts a minimum net operating surplus of £78,075, subject to any increases in fees and charges, bringing the working balance level up to £707,139.

Legal: None

Human Resources: None

#### RECOMMENDATION(S)

1. That the estimated outturn for 2010/11 is approved.
2. That the proposed Housing Revenue Account budget for 2011/12 is approved for consideration at Scrutiny Committees.
3. That dwelling rents be increased in accordance with the Rent Restructuring guidelines by an average of 8.21% for 2011/12, subject to confirmation of the rent determination.
4. That the proposed charges in respect of fees and charges be approved for consideration at Scrutiny Committees.



REASON FOR DECISION

The budget for 2010/11 is revised at this time to align it with the expected outturn. This is good financial management.

The Council is required to approve a balanced budget for 2011/12 based on the rent levels set.

ATTACHMENTS:	Y
FILE REFERENCE:	None
SOURCE DOCUMENT:	Background papers held in Financial Services



Social Inclusion – Promoting fairness, equality and lifelong learning

Actual 2009/10 £	Details of Expenditure	Original Budget 2010/11 £	Estimated Outturn 2010/11 £	Base Budget 2011/12 £	Forecast 2012/13 £	Forecast 2013/14 £
<b>HOUSING REVENUE ACCOUNT</b>						
<b>Expenditure</b>						
3,615,254	Repairs and Maintenance	4,351,300	4,392,070	4,550,610	4,562,530	4,570,950
3,060,045	Supervision and Management	3,165,490	3,144,290	3,256,170	3,289,780	3,290,800
414,489	Special Services	511,710	481,560	496,780	520,710	544,740
291,840	Supporting People	118,500	208,180	135,280	135,939	136,269
103,823	Tenants Participation	115,780	115,700	116,140	117,640	117,660
5	Rents, Rates, Taxes & Other Chrgs	1,570	0	0	0	0
386,346	Increase in Bad Debts Provision	0	99,000	0	0	0
4,293,329	Housing Subsidy Payable	4,476,066	4,432,520	5,368,320	6,389,060	7,474,050
300,236	Cost of Capital	318,580	338,910	363,290	364,380	365,460
6,207	Debt Management Expenses	6,640	7,020	7,520	7,540	7,570
0	Vacancy Factor	(70,000)	(35,000)	(30,000)	(30,000)	(30,000)
0	Employers Pension Increase	0	0	3,900	3,900	3,900
0	Efficiency Savings Targets	(280,000)	0	0	0	0
<b>12,471,575</b>	<b>Total Expenditure</b>	<b>12,715,636</b>	<b>13,184,250</b>	<b>14,268,010</b>	<b>15,361,479</b>	<b>16,481,399</b>
<b>Income</b>						
(15,598,187)	Income	(16,074,590)	(16,429,715)	(17,584,038)	(18,687,039)	(19,844,369)
<b>(15,598,187)</b>	<b>Total Income</b>	<b>(16,074,590)</b>	<b>(16,429,715)</b>	<b>(17,584,038)</b>	<b>(18,687,039)</b>	<b>(19,844,369)</b>
<b>(3,126,612)</b>	<b>Net Cost of Services</b>	<b>(3,358,954)</b>	<b>(3,245,465)</b>	<b>(3,316,028)</b>	<b>(3,325,560)</b>	<b>(3,362,970)</b>
<b>Appropriations</b>						
0	Cost of Capital Adjustment	0	0	0	0	0
2,562,871	Depreciation	2,288,660	2,541,450	2,539,930	2,538,440	2,536,980
581,825	T/f to/(from) Major Repairs Reserve	878,680	625,940	664,170	695,890	726,650
<b>18,083</b>	<b>Net Operating (Surplus) / Deficit</b>	<b>(191,614)</b>	<b>(78,075)</b>	<b>(111,928)</b>	<b>(91,230)</b>	<b>(99,340)</b>
<b>(647,148)</b>	<b>Working Balance at Beginning of Year</b>	<b>(361,949)</b>	<b>(629,065)</b>	<b>(707,139)</b>	<b>(819,067)</b>	<b>(910,298)</b>
18,083	Contribution to/(from) Balances	(191,614)	(78,075)	(111,928)	(91,230)	(99,340)
<b>(629,065)</b>	<b>Working Balance at End of Year</b>	<b>(553,563)</b>	<b>(707,139)</b>	<b>(819,067)</b>	<b>(910,298)</b>	<b>(1,009,638)</b>