

 Executive 11 January 2012		Agenda Item No. 5
Title	Housing Revenue Account base estimates revised 2011/12 and original 2012/13	
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Wards of the District directly affected	All	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	
Date and meeting when issue was last considered and relevant minute number		
Background Papers	Executive 13 July 2011 – Financial Strategy and Budget Prospects; Executive 12 October 2011 – Fees and Charges 2012/13; Executive 16 November 2011 – Budget Monitoring to 30 September 2011	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes Ref 348
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive		Bill Hunt
Head of Service	n/a	Finance Report
CMT		
Section 151 Officer		Mike Snow
Monitoring Officer		
Finance	n/a	Finance Report
Portfolio Holder(s)		Councillor Vincett
Consultation Undertaken		
None		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

- 1.1 This report sets out the latest projections for the Housing Revenue Account, (HRA), revenue estimates in respect of 2011/12 and 2012/13 based on the current levels of service, and previous decisions. There are further matters that will need to be reviewed in order to finalise the base position as part of the 2012/13 budget setting process as set out in paragraph 7.5.
- 1.2 The proposed 2011/12 Revised Budget will present a decrease in HRA balances, compared to the original estimate, of £3,545,500, reducing the balance on the HRA to £3.5m.
- 1.3 The proposed 2012/13 Base Budget presents a surplus of £1,606,600, which will increase the balance on the HRA to £5.1m. This is in line with the assumptions currently built into the Self financing Business Plan being prepared for implementation from April 2012.

2. RECOMMENDATIONS

- 2.1 To recommend to Council:
 - (a) the revised base budget revenue estimate for Housing Revenue Account services in respect of 2011/12 as outlined in Appendix 'B';
 - (b) the base budget revenue estimate for Housing Revenue Account services in respect of 2012/13 as outlined in Appendix 'B'.

REASONS FOR THE RECOMMENDATION

- 2.2 The Council is required to determine its budget requirements in order to set Council Housing Rents for 2012/13.

3. POLICY FRAMEWORK

3.1 Policy Framework

The Housing Revenue Account base estimates revised 2011/12 and original 2012/13 report forms part of the Budgetary Framework which is the resource strategy for implementing Fit for the Future. This report is in accordance with the Council's Financial Strategy as last approved by the Executive in February and updated in the Financial Projections Report in July 2011.

3.2 Fit For the Future

A key element of Fit for the Future is ensuring that the Council achieves the required savings to enable it to set a balanced budget whilst maintaining service provision. The Housing Revenue Account is subject to the same regime to ensure efficiency within the service.

4. BUDGETARY FRAMEWORK

- 4.1 Members are reminded that the 2012/13 Council Housing Rents will be set in February after budgets are finalised. Also, that from next year, the current Housing Subsidy System will be abolished and replaced with a new 'Self Financing' System. This requires the Council to 'buy' itself out of the current Housing Subsidy System, the cost of which is yet to be finalized, though latest

announcements, contained within the draft Housing Subsidy Determinations, received on 21st November, 2011, suggest that this is likely to be in the order of £136.8m. However, it is possible that this could change when final figures are received from the Government in January.

- 4.2 The Council's Medium Term Financial Projections include net inflation for most services for 2012/13 at 0%. An inflation allowance of 4% has been included for the major contracts and a general contingencies budget allowing for pay and other prices.

5. ALTERNATIVE OPTION CONSIDERED

- 5.1 The purpose of this report is to produce estimates as determined under the requirements of the Financial Strategy. Any alternative strategies will be the subject of separate reports.

6. BACKGROUND

- 6.1 At its meeting on 13 July 2011 the Executive considered a framework for a financial strategy and the Budget 2012/13 Prospects and Process.

- 6.2 The broad action plan adopted by the Council is as follows:

- The service plan process, including the identification of unavoidable service growth items, efficiency savings and possible service reduction proposals, is the integrated business planning process adopted by the authority.
- Detailed preparation of fees and charges was considered by Members in October 2011.
- Use of the base budget process, which includes a detailed analysis of all items in the budget and forms the major part of this report.
- The political process of considering options, consulting on options and making proposals.

- 6.3 This report presents the proposed Base Budget for 2012/13. These figures reflect the costs of maintaining the current level of service, and any unavoidable changes in expenditure (for example, where the Council is contractually or statutorily committed to incur additional expenditure). The report also considers the current year's budget, and includes details of proposed revision to the 2011/12 Budget.

- 6.4 Any recent changes that need to be resolved that have not been included in the estimates at this stage will be fed into the February report.

- 6.5 In February all the following information should be available:

- 2012/13 Base Budget
- Decision on implementing revised programme of photovoltaic cells installation
- 2012/13 Final Housing Revenue Account Determination for Self Financing

- 6.6 The Council will be in a position to agree the 2012/13 Budget and council housing rents for the year.

6.7 The report is broken down into the following sections and appendices:

Section 8 - Base Budgets
 Section 9 - 2012/13 Base Estimates
 Section 10 - Revised Estimates 2011/12
 Section 11 - Summary
 Appendix A - Analysis of Budget Movements from 2011/12 to 2012/13
 Appendix B - Revenue Estimates
 Appendix C - Glossary of Terms

7. BASE BUDGETS

7.1 The proposed Base Budgets for the 2012/13 Estimates and the 2011/12 Revised Estimates are shown below. Section 9 of this report considers the 2012/13 Base Estimates, with Section 10 looking at the 2011/12 Revised Estimate figures.

	ESTIMATE 2011/12 £'000	REVISED 2011/12 £'000	ESTIMATE 2012/13 £'000
Net Deficit / (Surplus) on Housing Revenue Account	<u>2,360</u>	<u>5,906</u>	<u>(1,607)</u>
Net Cost of Supervision & Management Service Expenditure included in above:			
Supervision & Management - General (Detail: App. B4:B5)	2,722	2,774	2,857
Supervision & Management - Special (Detail: App. B6:B10)	2,117	2,053	2,181
Total Net Cost of Supervision & Management	<u>4,839</u>	<u>4,827</u>	<u>5,038</u>

7.2 The Housing Revenue Account, (HRA), is a statutory account which itemises all of the income, expenditure and capital charges relevant to the Council's landlord function in being a provider of social housing.

7.3 Current Base Budgets for this account show a surplus of £1.6m for 2012/13.

7.4 Explanations for variations on this account are shown in the first part of Appendix 'A' and sections 'B1' to 'B3' of Appendix 'B'.

7.5 'Supervision and Management', totalling £5.0m for 2012/13, as shown in the table above, is an integral part of the HRA. It forms one of the elements of expenditure shown within the HRA, and is not additional to it. The income and expenditure relevant to the day to day operation of the Housing Service is detailed within these elements of the accounts.

7.6 The major elements of these costs are highlighted in the second part of Appendix 'A', 'Supervision and Management Costs', with greater detail being provided in Appendix 'B'.

7.7 Sections 'B4' and 'B5' of Appendix 'B' detail expenditure on Supervision and Management 'General', estimated at £2.8m for 2012/13. This is essentially the cost of providing supervision and management and maintenance of the stock and rent collection.

7.8 Sections 'B6' to 'B10' detail expenditure on Supervision and Management 'Special', estimated at £2.2m for 2012/13. This mainly consists of the

provision of the Warwick Response and warden services, together with caretaking and other landlord functions such as lighting and communal areas in flats.

8. 2012/13 BASE ESTIMATES

- 8.1 In preparing the 2012/13 Base Estimate the over-riding principle is to budget for the continuation of services at the existing level. The following adjustments need to be made to the 2011/12 Original Estimates.

Removal of any one-off and temporary items
 Addition of inflation
 Addition of previously agreed Growth items
 Addition of unavoidable Growth items
 Inclusion of any identified savings

- 8.2 The table below summarises how the 2012/13 HRA base budget has been calculated. Appendix 'A' gives more details to support this.

	£	£
ORIGINAL ESTIMATED NET DEFICIT ON HOUSING REVENUE ACCOUNT 2011/12		2,360,400
Inflation		51,400
Increased Bad Debts Provision		100,000
Reduced Interest on Balances		9,000
Increased Contribution to Repairs Fund - Revenue		38,100
Net Increase to Income		(1,651,500)
Other Small Changes		(3,200)
Changes Due to Move to Self Financing		
- No Payment to Housing Rent Pool	(8,635,200)	
- Interest on Self Financing Loan	4,595,000	
- Contribution to Debt Repayment	<u>2,737,000</u>	(1,303,200)
Adjust for Capital Financing Charges - Self Financing		
- Dwellings Depreciation	1,342,900	
- Adj. Re Major Repairs Allowance	303,000	
- Contribution to Repairs Fund - Capital	<u>(3,065,000)</u>	(1,419,100)
Adjust for Changes in Support Service Recharges (Housing Repairs Supervision)		17,700
Adjust for Changes in Support Service Recharges (Supervision & Management - detailed below)		148,600
Adjust for ISA19 Charges (Pensions Accounting)		45,200
ORIGINAL ESTIMATED NET (SURPLUS) ON HOUSING REVENUE ACCOUNT		<u>(1,606,600)</u>
Change in Balances:		(3,967,000)

8.2.1 Inflation

No inflation has been applied to the majority of budgets, the main exceptions being in respect of rents and major contracts. Dwelling rents have been increased by an average 8.4% in line with the September inflation figure of 5.6%, plus 0.5%, plus an amount for the move to 'Formula Rents', as required in the 'Rent Restructuring' calculation. This has added income of (£1,696,500), to the estimates. Major contracts have been inflated by 4% which equates to an increase of £11,200 and an additional £40,200 has also been provided.

8.2.2 Staffing

Staffing costs will increase by £173,000, due mainly, £138,800, to the increase

in the number of posts on the establishment, following the implementation of the Service Improvement Plan, (SIP), agreed by the Executive in February 2011. The majority of the posts were agreed as 'fixed' two year contracts, so 2012/13 sees a 'full year effect' of the plan's proposals whereas 2011/12 had only a part year effect.

8.2.3 Growth / Income Reductions

Only unavoidable and previously committed growth has been included in the Base Budget. The major item is an increase of £100,000 to bad debts provision to enable the continuing reduction in Former Tenant Account arrears to be written off and allow for increases in rent arrears due to the current economic situation.

8.3 Implementation of 'Self Financing' – April 2012

- 8.3.1 Most of the larger variations within the budget are due to the move to Self Financing from April 2012. Payments to the National Housing Rent Pool, £8,635,200 in 2011/12, will cease and the servicing of a debt take on, currently estimated at £136.8m, will take its place. Currently, the estimated costs for this are interest payments of £4,959,000 and a contribution towards debt repayment of £2,737,000, during 2012/13. However, this may change following Members approval of their preferred debt repayment structure which will be presented as part of the Housing Business Plan, to be presented at as a separate report to this Committee.
- 8.3.2 Other changes involve the treatment of depreciation and how it is accounted for within the budgets. As part of the Housing Subsidy Determinations, the Major Repairs Allowance, (MRA), has always been viewed as a 'proxy' for depreciation. The 'actual' depreciation charge traditionally used has been that calculated by the District Valuation Office. When this differs from the MRA, an adjustment charge is included within the HRA to equalize the two figures. The original depreciation estimate for 2011/12 was £4,073,900, whilst the MRA was, and remains, £3,770,900. The difference, £303,000, is then charged to the HRA as an adjusting item. In future, the dwellings depreciation will be equivalent to the cost of capital repairs within the Housing Investment Programme, (HIP), as reflected in the Housing Business Plan. This will substitute the Major Repairs Allowance and any accompanying adjustments necessary, previously decided by the Government, which were contained within the Housing Subsidy Determinations. The depreciation charge has increased by £1,342,900 and the adjusting item of £303,000, added back.
- 8.3.3 To date, there has been considerable scope within the revenue accounts to supplement capital expenditure by making Revenue Contribution to Capital Outlay, (RCCO's). With the higher depreciation charge to the HRA, to provide for capital expenditure, following self financing, it is expected the need for these additional contributions will cease in future years.
- 8.4 The table below summarises how the 2012/13 Supervision and Management base budget has been calculated, (this is included as part of the HRA budget detailed in the Table above). Appendix 'A' gives more details to support this.

£

ORIGINAL ESTIMATED EXPENDITURE ON SUPERVISION & MANAGEMENT 2011/12

4,838,500

Inflation	51,400
Committed Growth	33,500
Staffing Changes	173,300
Adjust for Changes in Support Service Recharges	62,600
Reduced Income	39,700
Savings	(115,600)
Adjust for ISA19 Charges	(45,200)

ORIGINAL ESTIMATED EXPENDITURE ON SUPERVISION & MANAGEMENT 2012/13

5,038,200

Increase in Expenditure:

199,700

8.5 Appendix 'B'

- 8.5.1 When the 2010/11 final accounts were considered in June this year the Finance and Audit Scrutiny Committee expressed concern about the level of detail provided and set up a member working party to investigate further. It was decided that the level of detail provided was still required to assist with the scrutiny function, but that some pictorial additions, might help.

9. REVISED ESTIMATES 2011/12

- 9.1 A review of the 2011/12 budget has also been carried out in order to establish revised estimates for the current year. Appendix 'B' provides an analysis of net expenditure for the service.
- 9.2 The revised estimates for the Housing Revenue Account forecast a deficit of £5,905,900 which is an increase of £3,545,500 compared with the originally approved estimate for 2011/12 of a deficit of £2,360,400. The main reason for this is the inclusion of expenditure relating to a programme of installation of solar panels to a number of HRA properties at an estimated cost of £3,380,000, agreed by Executive on 14th September, 2011. Excluding this expenditure, the deficit has only increased by £165,500 for the year.
- 9.3 Due to recent changes in Government policy regarding Feed in Tariffs, (FiT), which has halved the expected income for generated electricity per unit, from around 42p to 21p and brought forward the date for this to be implemented from March 2012 to 12th December, 2011, the full programme originally envisaged is no longer viable. However, it is anticipated that a considerably reduced, but still viable, programme could be implemented by the end of March 2012. Officers have produced a report setting out the new proposals, which has been brought to Members as a separate agenda item at this Executive. Any necessary amendments to the budgets following Members' decision on the new proposals will be included in the February report.
- 9.4 The table below summarises how the 2011/12 HRA revised budget has been calculated.

	£	£
ORIGINAL ESTIMATED NET DEFICIT ON HOUSING REVENUE ACCOUNT 2011/12		2,360,400
Adjust for Indirect Items:		
- Changes in Support Service Recharges (Housing Repairs Supervision)	3,200	
- Changes in Support Service Recharges (Supervision & Management - detailed below)	(12,000)	
- ISA19 Adjustments	45,200	36,400
Plus Committed Growth / Income Reductions:		
- Increased Contribution to Repairs Fund - Revenue	148,900	
- Increased Contribution to Repairs Fund - Capital (Solar Panels)	3,380,000	
- Increased Payment to bad Debts Reserve	100,000	
- Increased Payment to Insurance Reserve	99,700	
- Licences	13,000	
- Reduced Income (Rents)	41,200	
- Reduction - Other Grants & Contributions	9,000	
- Increases in Expenditure	11,300	3,803,100
Less Savings:		
- Reduced Payment to Housing Rent Pool	(253,200)	
- Interest on Balances & Mortgage Interest (Higher Interest Rates)	(14,500)	
- Increased Income - Service Charges	(20,100)	
- Increases (Other Income)	(2,200)	
- Reductions in Expenditure	(4,000)	(294,000)
REVISED ESTIMATED NET DEFICIT ON HOUSING REVENUE ACCOUNT 2011/12		<u>5,905,900</u>

- 9.5 The revised estimates for Supervision and Management expenditure is £4,826,500, a reduction of £12,000 compared with the originally approved estimate for 2011/12 of £4,838,500.
- 9.6 The table below summarises how the 2011/12 revised Supervision and Management budget has been calculated, (this is included as part of the HRA budget detailed in the Table above). Appendix 'B' gives more details to support this.

	£	£
ORIGINAL ESTIMATED EXPENDITURE ON SUPERVISION & MANAGEMENT 2011/12		4,838,500
Adjust for Indirect Items:		
- Changes in Support Service Recharges	92,500	
- ISA19 Adjustments	(45,200)	47,300
Plus Committed Growth:		
- Employee Costs - (Including Service Improvement Plan posts)	116,000	
- Reduced Income	26,200	
- Other Changes (net)	13,100	155,300
Less Savings:		
- Gas and Electricity	(58,600)	
- Cleaning Contract	(34,900)	
- Reduction - Legal Fees (Shared Services)	(20,000)	
- Reduction - Consultants Fees	(25,300)	
- Reduced Expenditure - Supplies and Services	(75,800)	(214,600)
REVISED ESTIMATED EXPENDITURE ON SUPERVISION & MANAGEMENT 2011/12		<u>4,826,500</u>
Reduced Expenditure:		(12,000)

- 9.7 The comments made in paragraph 9.5 concerning the content of Appendix 'B' are equally applicable to the information provided in respect of the Revised Estimates.
- 9.8 The 2011/12 'Revised' position is broadly in line with the regular budget monitoring that continues to take place throughout the year.

10. SUMMARY

- 10.1 The proposed 2011/12 Housing Revenue Account Revised estimates will present an increase in expenditure over the Original Estimate of £3,545,500, reducing balances to £3.5m.
- 10.2 This report, in considering the 2011/12 Revised Estimates constitutes the third monitoring report for the year presented to Members.
- 10.3 The proposed 2012/13 Base Budget presents a surplus of £1,606,600 increasing balances to approximately £5.1m.
- 10.4 Some service enhancements have been included in the estimates, as identified in the Service Improvement Plan, (SIP), brought to Members in February, 2011. The decision to implement a programme to install solar panels to a number of properties, at an estimated cost of £3,380,000, has also been included, however, as outlined above, it is expected this will be considerably reduced following recent Government announcements regarding FiT payments.
- 10.5 Any other agreed service changes, including those relating to Members decisions regarding Housing Business Plan and it's financing, not resolved at this point, will also be included in the February 2012 report.
- 10.6 Similarly, any changes resulting from the issuing of the Final Housing Subsidy Determination figures, which may alter the terms and conditions for the implementation of Self Financing from April 2012, including the amount payable to the Government for 'buy out' and the inflation amount to be applied to dwelling rents, will also be included. These figures are expected during January 2012.