

Meeting: Executive

Agenda Item: **13**

Portfolio Area: Resources

Date: 10 February 2010

HOUSING REVENUE ACCOUNT (HRA) BUDGET 2010/11

KEY DECISION

Author – Clare Fletcher	Ext 2933
Contributors-Ann Tomlin	Ext 2350
Noel Whitcher	Ext 2418
Lead Officer – Scott Crudgington	Ext 2185
Contact Officer – Clare Fletcher	Ext 2933

REASON FOR URGENCY

As setting the HRA budgets forms part of the Council's Budget and Policy Framework there are specific rules of procedure for decision making. In accordance with these rules the item has appeared on the Leader's Forward Plan of Key Decisions. However, there is still the need for a decision to be taken by Council by the end of March in order for the HRA 2010/11 budgets to be approved before the start of the 2010/11 Financial year.

1. PURPOSE

- 1.1 To consider the HRA Budget 2010/11 for recommendation to Council following the Budget consultation process.
- 1.2 To consider the 2010/11 Stevenage Homes Management Fee for recommendation to Council following the Budget consultation process.

2. RECOMMENDATIONS

- 2.1 That consideration be given to the comments of the Scrutiny Overview Committee on the draft HRA and Management Fee proposals reported in January as set out at section 2.2 below.
- 2.2 That the following proposals be recommended to Council on 24 February 2010 -
 - a) That the Budget summarised at Appendix A to this report, be the Council's HRA Budget for 2009/10 and 2010/11. A further update on the 2009/10 budgets will be given at the March Executive as part of the quarterly monitoring process.
 - b) That approval be given for the SHL Management Fee for 2010/11 of £14,308,958, with a reduction of £78,500 if the national pay award is a zero percent increase.
 - c) That approval be given to the Fees and Charges schedule at Appendix D.
 - d) That approval be given to a HRA Contingency Sum in the Budget and Policy Framework for 2010/11 of £250,000.

- 2.3 That it be noted that Council may, at its discretion, agree to vary the HRA budget, in the course of its considerations.
- 2.4 That it be noted that the HRA Medium Term Financial Strategy will be presented to the July 2010 meeting of the Executive.

3. BACKGROUND

- 3.1 In November 2009, the Executive approved the HRA Medium Term Financial Strategy (MTFS) which if achieved, would generate a level of balances on the HRA of £813,788 as at 31 March 2011.
- 3.2 The report also included savings proposals of £250,500, which Members delegated approval to the Strategic Director's of Resources and Community, in consultation with the Portfolio Holders for Resources and Housing. Savings options of £246,500 were subsequently approved under the delegated authority and are included in the 2010/11 HRA estimates (Appendix A).
- 3.3 The report included Forward Plan bids totalling £191,330 which Members delegated approval to the Strategic Director's of Resources and Community, in consultation with the Portfolio Holders for Resources and Housing. Bids totalling £191,330 were subsequently approved under the delegated authority and are included in the 2010/11 HRA estimates.
- 3.4 In January the Executive considered a report on the draft HRA Budget 2010/11 incorporating the HRA Revenue Savings, Growth Proposals and SHL Management Fee and a recommended rent increase of 1.72%. Members will also recall that there was an unidentified efficiencies target included in the HRA for 2010/11 of £248,460. One option presented to Members to fund the efficiency target, was a reduction in the Management Fee following a review of SHL's company balances. The Executive recommended the draft HRA Budget for consideration by the Scrutiny Overview Committee as part of the 2010/11 Budget process.
- 3.5 The rent increase of 1.72% was recommended and approved by Council on the 27 January 2010.
- 3.6 The budget setting process for the HRA, although managed by SHL forms part of the Council's Budget and Policy Framework. Under Article 4 of the Constitution, the Budget includes: the allocation of financial resources to different services and projects and the setting of virement limits.
- 3.7 This report also presents the comments of the Scrutiny Overview Committee on the draft HRA. Consideration of the Budget is a matter for Full Council and a recommendation contained in the front of this report notes the Council may agree to additional expenditure, or variations, to the Budget.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Scrutiny Overview Committee

- 4.1.1 The Scrutiny Overview Committee has considered the Executive reports referred to above and their comments are shown below.

4.1.2 HRA Revenue Budget

The Strategic Director (Resources) and Head of Finance provided the Scrutiny Overview Topic Group with a detailed briefing on the Budget on 26 January 2010.

In Summary:

The group considered the HRA MTFs incorporating the draft HRA estimates which was presented to Members in November 2009 and covered the following:-

- The prudent level of balances for the HRA
- The inter-relationship of SHL as a company, the impact of the capital management fee if not achieved on the SHL company balances.

4.1.3 The Scrutiny Committee discussed the impact on the HRA of:

- The biggest risk to the HRA is that the Decent Homes programme is not completed on time and for every £1M that is under spent SHL would be required to meet £74,000 from their company accounts.
- The Topic Group stated that they would be seeking assurances from Stevenage Homes Ltd (SHL) that adequate project management and financial monitoring skills were now in place to mitigate the risk of non delivery of the decent homes programme. To this end the Chair suggested that SHL Chief Executive be invited to attend a future Scrutiny Overview Committee (SOC) meeting to outline her vision for SHL.
- The Topic Group supported Council officer's stance that an unidentified efficiency savings target of 30% of the HRA was not acceptable.
- The need for adequate HRA reserve balances to cover risks such as increased voids and provision for bad debts.

The Scrutiny Overview Committee was content for the 2009/10 and 2010/11 Housing Revenue Account Budget, subject to the above issues being reviewed as part of the on-going financial monitoring process, being referred back to Executive for recommendation on to Council.

4.2 SHL Budget Scrutiny Group

4.1.2 SHL Resources committee raised a number of points of clarification relating to the 2010/11 HRA budgets and Management Fee. A Budget Scrutiny Group was held on 21 January 2010, to clarify the points raised and SHL's Resources Committee held on the 4 February 2010 recommended the revised Management Fee and HRA budget for 2009/10 and 2010/11 contained within this report.

4.3 Consultation with Tenant Groups

4.2.1 SHL met with FOSTA on the 17 January 2010 outlining the issues and recommendation for the proposed rent increase for 2010/11.

5. IMPLICATIONS

5.1 General

The SHL report recommending the HRA budgets is attached at Appendix A and the HRA estimates as recommended by SHL are attached as Appendix B.

5.2 Budget Savings

5.2.1 The savings of £250,500 for inclusion in the HRA budgets were approved under delegation approved at the November Executive. These savings and budget proposals have been incorporated in the budget summary in Appendix B and are detailed in Appendix C.

5.3 Revenue Growth

5.3.1 The Forward Plan bids of £191,330 for inclusion in the HRA budgets were approved under delegation at the November Executive. These bids have been incorporated in the budget summary in Appendix A and are detailed in Appendix B.

5.4 HRA Subsidy

5.4.1 The final HRA subsidy determination was received 3 February 2010 and an additional £99,561 of subsidy has been received, the majority £77,454 as a result of a change to the LIBID rate from 2.0% to 1.5%. This has not yet been incorporated into the final HRA estimates at Appendix A, the changes are summarised in the table below. A copy of the consultation response is attached at Appendix C.

	Original 2010/11 £	Original 2010/11 £	Variance to draft determination
Management allowance	(4,596,827)	(4,597,629)	(802)
Maintenance allowance	(9,335,915)	(9,357,125)	(21,210)
Item 8 Investment Interest	309,817	232,363	(77,454)
Mortgage Interest	7,300	7,300	0
Notional Rent	32,183,831	32,183,831	0
Subsidy withdrawal	18,568,206	18,468,740	(99,466)
Major Repairs Allowance (MRA)*1	(6,433,935)	(6,434,030)	(95)
Total Subsidy withdrawal	12,134,271	12,034,710	(99,561)

*1 The MRA is used to fund capital expenditure

5.5 SHL Management Fee

5.5.1 The 2010/11 draft SHL Management Fee recommended by SHL and included in the January 2010 Executive report was £14,420,420. The final Management Fee has reduced by £111,462 to £14,308,958. The reduction represents a revision of inflation assumptions assumed within the Management Fee. The 2010/11 fee is £361,160 higher than the revised 2009/10 fee and represents an increase of 2.59%. This does not include the £180,000 held in the HRA to allow sufficient funds to be available to fund an increase in demand for responsive repairs. SHL have indicated that they expect to need the additional fee for 2010/11.

5.5.2 The pay award assumed by SHL within their management fee is 1%, or £78,500. If there is no or a zero percent national pay award, SBC officers would recommend the return to the HRA of the 1% pay award within the context of the Management Agreement.

5.6 HRA budget 2009/10

- 5.6.1 At the January Executive the revised 2009/10 HRA budget was a net expenditure of £477,631 and HRA balances as at 31 March 2010 of £1,617,625. The revised HRA budget approved by SHL's Resources Committee on the 4 February was a net expenditure of £11,050 and HRA balances as at 31 March 2010 of £2,084,333.
- 5.6.2 The 2009/10 net expenditure has reduced by £466,581 between the draft and final budget, is shown in the table below.

HRA 2009/10 Revised Budget	£
Draft HRA net Expenditure	477,631
Review of Management Fee for in year revisions	(267,750)
Reduction in Utility costs (net of reduced income)	(152,671)
Reduction in provision for bad debt	(27,800)
Other minor adjustments	(18,360)
Revised HRA net Expenditure	11,050
Opening Balance on HRA (actual) 1 April 2009	(2,095,383)
In year net expenditure	11,050
Closing Balance on HRA (estimated) 31 March 2010	(2,084,333)

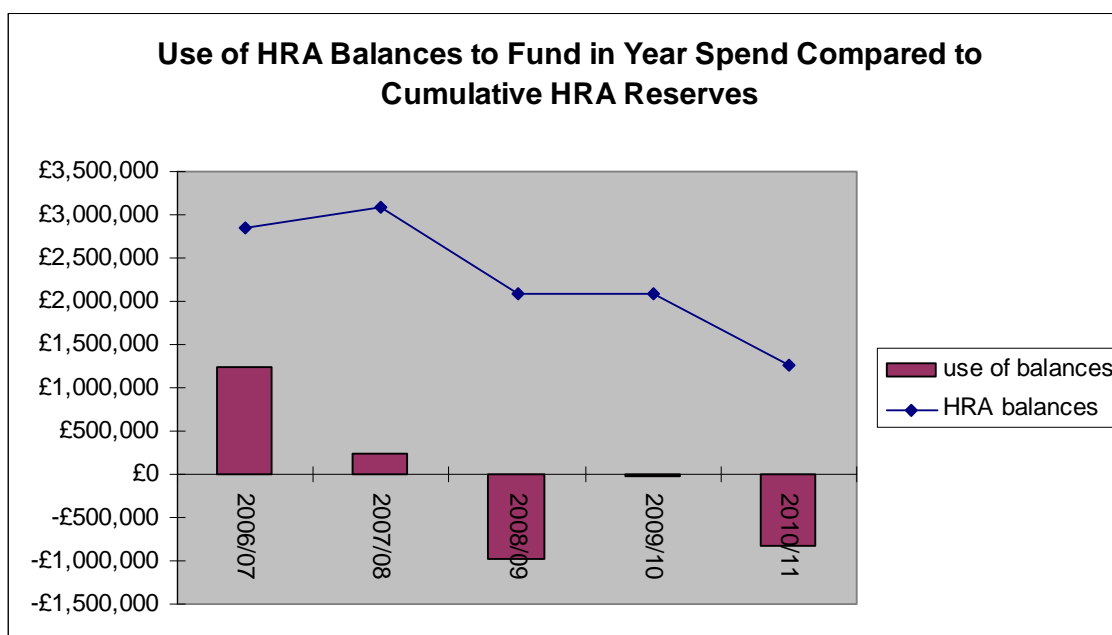
5.7 HRA budget 2010/11

- 5.7.1 At the January Executive the original 2010/11 HRA budget was a net expenditure of £693,205 and HRA balances as at 31 March 2010 of £924,420. Members were advised at the January Executive that after discussion with SHL, an adjustment was required relating to the depreciation figure totalling £104,140. This increased the net expenditure to £797,345 and reduced the projected HRA balances as at 31 March 2011 to £820,279. The 2010/11 HRA estimates also included an efficiency savings target of £248,460, which did not have specific savings options identified to meet the target. Due to the low level of balances remaining within the HRA, the Council's Chief Financial Officer does not believe it prudent to leave this unidentified savings target within the 2010/11 budget.
- 5.7.2 The 2010/11 HRA budget approved by SHL's Resources Committee on the 4 February is net expenditure of £827,080 and HRA balances as at 31 March 2010 of £1,257,253. This is an increase in 2010/11 net expenditure of £132,875, the increase in expenditure partly relates to the removal of the efficiency savings target of £248,460.
- 5.7.3 A summary of the changes to the 2010/11 HRA budgets from the Draft to the Final budget is shown in the table below:

HRA 2010/11 Budget	£
Draft HRA net Expenditure	693,205
Reduction in SHL inflation assumption in fee	(111,462)
Reduction in SHL fee for reduction of Management Fee agreed as part of savings options	(35,000)
Removal of efficiency target	248,460
Reduction in Utility cost income (net of reduction in utility costs)	27,207
Adjustment to depreciation figure	104,140
Final subsidy Determination	(99,470)
Revised HRA net Expenditure	827,080
Opening Balance on HRA (estimated) 1 April 2010	(2,084,333)
Revised HRA net expenditure	827,080
Closing Balance on HRA (estimated) 31 March 2011	(1,257,253)

5.7.4 Total balances and reserves as at 1 April 2011 are estimated to be £1,257,253 (after a use of balances of £827,080). These levels of balances are needed to meet unforeseen expenditure and/or income losses arising in the year and to meet expenses arising before income is received.

5.7.5 Although the Council has not used HRA balances to support in year expenditure year on year, Members can see from the graph below that HRA reserves have declined from £2,847,146 to £1,257,253 estimated as at 31 March 2011. The fluctuation in balances can be partly attributable to the cash flow vagaries of the housing subsidy formula. However the current trend is unsustainable and now the Department of Communities and Local Government (DCLG) have indicated that rent convergence has been brought forward to 2013/14, SHL will need to model this in the MTFS in July. Members will also be aware that the current HRA MTFS has a £500,000 efficiency target in 2011/12.



5.8 HRA Rent Increase

5.8.1 The rent 2010/11 rents increase for HRA dwellings was approved at Council on the 27 January 2010. This was in line with the Government's Rent Restructuring policy. A summary of the approved average rent increase (based on a 52 weeks) is shown in the table below.

2009/10 average rent set at Government Constrained Rent	£75.75	
Inflationary increase	-£1.07	
Add rent restructuring increase	£2.39	1.72%
2010/11 Average Rent	£77.07	

5.9 SHL Company Surpluses

5.9.1 In January it was reported that SHL would have company surpluses as at 31 March 2011 of £830,157, this is now projected to be £828,348, as detailed below.

SHL Reserves	2009/10 £	2010/11 £
Opening Balance	(919,557)	(820,633)
Return of surplus	330,000	0
Forecast Outturn	(231,076)	(6,753)
Closing Balance	(820,633)	(827,386)

5.9.2 SHL have recommended that they require balances of 5%-10% of turnover to operate or £800,000- £1,600,000. Their balances position relies on delivering 100% of the capital programme to realise the 8% management fee on the capital programme. To date they have paid invoices totalling £9,030,022 of a £19,263,380 programme or 47%. SHL have calculated that for every £1,000,000 not spent, they would lose a capital fee of £74,000. This issue will be closely monitored by the Council during 2010/11.

5.10 Contingency Sums

5.10.1 The Executive will recall a Contingency Sum needs to be determined by the Council as part of the Budget and Policy Framework in order to avoid the need for Full Council to consider all supplementary estimates during the course of the year. This contingency sum constitutes an upper limit within which the Executive can approve supplementary estimates, rather than part of the Council's Budget Requirement for the year. A sum of £250,000 was agreed as part of the 2009/10 budget setting process, it is proposed that this remains unchanged for 2010/11.

6. BACKGROUND DOCUMENTS

- HRA draft budget report January Executive.

7. APPENDICES

- Appendix A - 2009/10 working & 2010/11 Summary HRA Budgets
- Appendix B – Budget Savings and Forward Plan Bids
- Appendix C – Response to Subsidy Determination to CLG
- Appendix D – Fees and Charges