

LONDON BOROUGH OF HARROW

Meeting:	Cabinet
Date:	17 February 2004
Subject:	Housing Revenue Account (HRA) 2003-4 to 2006-7
Key decision:	No
Responsible Chief Officer:	Executive Director (Business Connections)
Relevant Portfolio Holder:	Planning, Development, Housing and Best Value
Status:	Part I
Ward:	All
Enclosures:	Appendix A - HRA MTBS 2003/04 to 2006/07

1. Summary

- 1.1 This report sets out revisions to the report submitted to Cabinet on 13 January 2004 in order to comply with the requirement of the Local Government and Housing Act 1989 to produce a balanced budget. This follows changes to information available at that time of the meeting.

2. Recommendations (for decision by Cabinet)

- 2.1 The Cabinet is asked to:
- 2.2 Approve the revised HRA Budget for 2003-2004.
- 2.3 Approve the 2004-5 HRA Budget
- 2.4 Approve the 3 year HRA Budget Projections
- 2.5 Approve the proposed level of working balance at 2.0% minimum and 3.0% optimum of gross expenditure. To be achieved over the life of the current MTBS.
- 2.6 Agree the revised capital financing strategy in accordance with Prudential guidelines
- 2.7 Approve the usage of the additional subsidy as set out in the report (paragraph 5.20)
- 2.8 Note the inclusion of estimates on a possible ALMO
- 2.9 That the IT development be approved subject to compliance with the overall Corporate IT Strategy.
- 2.10 Approve the increase in Sheltered Accommodation charges for those not eligible for financial support by 71p per week to £25.88 (paragraph 5.21)
- 2.11 That the proposals set out in Paragraph 5.25 on future action be endorsed
- 2.12 Confirm the rent increase approved by Cabinet and Council respectively on 13th and 22nd January 2004.

REASON: To comply with the requirement of the Local Government and housing Act 1989 and produce a balanced budget for 2004-2005

3. Policy Context (including Relevant Previous Decisions)

- 3.1 Cabinet on 13 January 2004 approved the increase in charges in the HRA for 2004-2005. Under the Local Government and Housing Act 1989 there is a requirement for the authority to formulate proposals on expenditure. There is also a need to consider other issues set out in this report to enable a balanced budget to be approved.
- 3.2 There is no further requirement to consider rents and other income as this has been approved.

4. Relevance to Corporate Priorities

- 4.1 The Housing Revenue Account details the resources available to provide Housing Services to Council Tenants.

5. Background Information and Options Considered

- 5.1 The Prudential Code for Capital finance in Local Authorities require the development of three year revenue forecasts as well as three year capital expenditure plans for both the general fund and the HRA.
- 5.2 The Council as part of its process considers the MTBS for General fund Revenue and also considers a three-year capital programme. However this has not been considered for the HRA. This report will set out a three-year plan for consideration by the Council to ensure a balanced budget.

- 5.3 In addition other items require decisions to be taken by the authority. These include the level of balances, expenditure on management and maintenance, capital expenditure and the use of additional one off subsidy.
- 5.4 **Three year Budget and Need for a Balanced Budget.** The HRA budget for the period 2002-2003 to 2004-2005 has shown actual or projected in year deficits of £949k, £1994k and £946k. This has only been able to be financed by drawing down on balances, although at the end of each year balances have been healthy. Based on the current programme, at the end of 2004-5 balances will have been fully utilised apart from using part of the additional one off subsidy.
- 5.5 To prevent ongoing deficits it is essential to review not only the 2004-2005 budget but also future years.
- 5.6 **2003-2004.** Since the last Cabinet meeting, following an application for a special determination, the ODPM have advised that the special determination should be issued by the end of the current financial year. The additional subsidy of £1.5m relates to 2002-3 and 2003-4 and should be received within 2003-2004. The budget for 2003-2004 has been amended accordingly.
- 5.7 The Cabinet report covered the potential usage of this sum. In respect of 2003-2004 it is proposed to utilise £500k to supplement the Housing Repairs Account in accordance with External Audit recommendations as set out in paragraph 6.17 of the January 2004 report and the need to finalise arrangements with existing contractors prior to the commencement of new contracts approved under the new partnering arrangements.
- 5.8 The Housing Repairs Account is not allowed to be in deficit, and any surpluses can be credited to the HRA. This contribution covers work in progress and ensures that the Account does not go into deficit.
- 5.9 **2004-2005.** The balance of £1.0m will be dealt with in considering the 2004-2005 and future years budgets.
- 5.10 A number of other items have changed since the previous report was written. These include the latest position on the ALMO, compliance with the Prudential Guidelines for capital expenditure, the latest position on RTB sales, and an initial review of major items of expenditure.
- 5.11 This has resulted in a revised HRA for 2003-2004, 2004-2005 and consequently 2005-2006 and 2006-2007. This is set out in Appendix A.
- 5.12 The budget for 2004-2005 has been reviewed to take account of known changes. These are detailed below.
- 5.13 **Inflation.** Salary inflation assumes 4% including pension increases for 2004-2005 and 4.5% for later years. Utility and internal recharges are calculated at 3% with all other items of expenditure at no increase, with costs to be adsorbed.
- 5.14 **ALMO.** The budget assumes the setting up of an ALMO, however the commencement date has been delayed, resulting in only a part year cost in 2004-2005 and full year costs in later years. For purposes of this report a September commencement date has been assumed. Any increases in costs would need to be met from balances or reductions in other costs.

- 5.15 **Balances.** It is prudent to retain a level of balances within the HRA in the same way, and for similar reasons as for the General Fund. Its purpose is to compensate for major variations in subsidy, rent levels inflation and unavoidable items of expenditure. It is recommended that the Council sets a minimum level of 2.0% of gross expenditure and an optimum level of 3.0%.
- 5.16 This gives a range from approximately £400k to £600k. The projected HRA gives balances in excess of the optimum level and consideration will have to be given in the future as to the potential use of such resources.
- 5.17 **RTB Sales.** The original budget assumed sales of 90 each year. There is uncertainty regarding future sales due to changes to maximum discounts and the effect of an ALMO. Projected sales have been reduced to 80 for 2004-2005 60 for 2005-2006 and 40 for future years. This has resulted in changes to rental income, repairs, capital receipts and subsidy and has been incorporated in the revised budget figures.
- 5.18 **IT Development Costs.** Included in the 2003-2004 is £300k for development costs and a further £200k for 2004-2005 and £75k for subsequent year. It is also proposed that an additional sum of £116k be met from the additional subsidy to supplement the 2004-2005 allocation. In addition there is a further £115k within Support service Charges.
- 5.19 **Provision for Bad debts** An initial review of the provision has taken place. A reduction of £200k for housing rents in the provision has been made for 2003-2004. However, there is insufficient provision for rent rebate overpayments and a further provision of £200k has been made for this purpose. The overall effect on the HRA is neutral. This will be further reviewed at the end of 2003-2004 and then annually to ensure correct provision is included.
- 5.20 **Additional Subsidy Element.** As indicated in this and the previous report it is anticipated that we will be receiving a further £1.5m in 2003-2004. It is recommended that this be utilised as follows: £500k to the Repairs Account (paragraph 5.7), £116k for IT Development (paragraph 5.17), the remainder to be included within balances. The January report requested £135k for single status as a one off item. This is actually required on an ongoing basis and has been included within the base budget.
- 5.21 **Capital Programme.** The HRA budget assumes a capital programme based on the use of the Major Repairs Allowance (MRA) RCCO, use of borrowing via the Single Capital Pot and monies available on proceeding with an ALMO. The method of funding has traditionally been outside of the normal capital programme due to the intricate links with the housing subsidy system. However as from 1 April 2004 such funding comes under the auspices of the new Prudential Guidelines. Detailed methods of funding will only be determined at year end as to the relationship between the use of RCCO, receipts, borrowing etc. It is essential that provision is made within the HRA to reflect the capital programme and for the purposes of this report and its link with the capital report it is assumed that no unsupported borrowing takes place at present and RCCO is used to balance the capital programme.
- 5.22 Included in the budget is £1.873m for 2004-2005 made up of slippage of £1m and £0.873m of new money, £0.825m for 2005-2006 and £1.210m for 2006-2007. This links in with the bid made for the ALMO submission.
- 5.23 No account has been taken in these figures for any amendments to the programme on a potential enhanced bid for the ALMO or different methods of funding of the programme.

5.24 **Overall Effect of Revisions and Future Projections** Based on the above and additional work carried out on details of the budget a revised position has been arrived at for each year. This is set out in summary form below:

	2003-4 £'000	2004-5 £'000	2005-6 £'000	2006-7 £'000
Balance brought forward	-2,842	-1,828	-842	-1,199
Net - surplus / deficit	1,014	986	-357	351
Balance carried forward	-1,828	-842	-1,199	-848

5.25 **Future Action** It is recommended that:

1. An in depth review of all areas of expenditure and income be commenced in 2004-2005.
2. That a review of SSC is carried out at the same time across the authority as a whole.
3. That a review of service charges for leaseholders be conducted.
4. A review of balances takes place.
5. That the financial implications of an ALMO be reviewed.

It is recommended that a full report be presented to BRWG setting out terms of reference and timetable in order that the review can be completed in time for the 2005-2006 Budget process.

6. **Consultation**

6.1 None.

7. **Finance Observations**

7.1 Included within the body of the report

8. **Legal Observations**

8.1 Included within the body of the report

9. **Conclusion**

9.1 Included within the body of the report

10. **Background Papers**

10.1 Cabinet Report January 2004.

10.2 Prudential Guidelines, CIPFA

Any person wishing to inspect the background papers should telephone 020 8424 3127

11. **Author**

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APPENDIX A

**HRA MTBS 2003/04 to
2006/07**

Expenditure	Original 03/04	Revised 03/04	Original 04/05	Estimated 2005/06	Estimated 2006/07
Charges for Capital	6,506,080	6,467,450	5,484,020	5,539,580	5,600,900
Contribution to Repairs Account	5,465,010	5,489,190	4,530,830	4,357,450	4,443,650
Inflation/Contingency	404,590	276,960	299,570	111,500	179,000
Leasehold Management	222,860	108,080	114,780	118,270	121,860
Provision for Bad Debts	360	0	0	0	0
RCCO	3,136,480	2,052,440	1,873,000	825,000	1,210,000
Rent Rebates	12,854,420	13,114,890	0	0	0
Rents/Agency Payments	40,500	17,960	9,970	9,970	9,970
S&M - General	2,507,900	5,155,650	6,241,550	6,128,820	6,349,440
S&M - Special	3,163,400	1,319,820	1,007,380	1,039,170	1,072,250
Expenditure Total	34,301,600	34,002,440	19,561,100	18,129,760	18,987,070
Facility Charges	-175,520	-153,230	-157,510	-162,240	-167,100
HRA Subsidy	-9,604,640	-11,143,540	3,370,950	3,749,770	3,964,230
Interest	-515,140	-526,040	-460,620	-414,320	-407,220
Other Income	-131,520	-140,600	-143,540	-146,570	-149,690
Rent Income - Dwellings	-20,170,170	-20,298,170	-20,450,060	-20,715,280	-21,062,340
Rent Income - Non- dwellings	-573,900	-503,780	-511,110	-518,450	-525,780
Service Charges	-226,010	-223,010	-223,010	-279,640	-287,970
Income Total	-31,396,900	-32,988,370	-18,574,900	-18,486,730	-18,635,870
In year Deficit / (Surplus)	2,904,700	1,014,070	986,200	-356,970	351,200
Balance Brought Forward	-2,904,700	-2,842,390	-1,828,320	-842,120	-1,199,090
Balance Carried Forward	0	-1,828,320	-842,120	-1,199,090	-847,890