

Report to: Executive Board 2nd December 2002
Council 9th December 2002

**Housing Revenue Account: Indicative Budget 2003/4 for Consultation
and Three Year Budget Forecast**

<p>Report of: Strategic Director – Finance & Corporate Services</p> <p>Report Author: Mark Luntley/Leader of the Council</p> <p>Lead Member Responsible: Cllrs Smith, Baker, Hollingsworth</p> <p>Overview and Scrutiny Committee Responsibility:</p> <p>Key Decision: YES</p>	<p>WARDS AFFECTED ALL</p>
<p>SUMMARY AND RECOMMENDATIONS</p> <p>The report sets out the corporate budget pressures and likely levels of resources available to the Housing Revenue Account in 2003-4 and subsequent years.</p> <p>If these initial estimates of inflation and Housing Subsidy prove accurate, the Council has a financing shortfall of £1.4m. The relevant portfolio holders and the Leader of the Council have allocated the available funding to Business Units. Business Managers have been charged with managing their budgets within that allocation and putting forward options for discussion with portfolio holders on how this might be achieved.</p> <p>Executive Board are asked to:</p> <ul style="list-style-type: none"> a) note the corporate pressures included in the budget b) recommend the proposed budget to Council as the HRA indicative consultation budget c) note that Business Managers are being asked to manage their services within the allocated budget d) task officers with reviewing the proposals put forward by Business Managers to ensure deliverability e) task officers with advising on the final HRA Subsidy settlement; f) note that the full-scale reviews of ALL expenditure within the Housing Revenue Account have begun 	

Introduction

This report identifies potential spending pressures, together with an estimate of likely resources available. This report covers a 3 year budget period. This enables better longer term planning linked to Capital investment and allows the business managers to plan ahead for changes in services and resources.

Longer-term budgeting means that the Council can look ahead and deliver services in a planned way.

Current Spending 2002/3

The HRA budget set for 2002/3 was a balanced budget that means that expenditure was set to meet budgeted income. The 2nd quarter monitoring report to Executive Board on November 11th identified some ongoing budget pressures. The main one was an ongoing budget pressure of £1m on Day To Day repairs. Balances are estimated to be approximately £1m at 31st March 2003 that is the minimum that the Section 151 officer supports.

Overview of 2003-4 budget

Using the current year's base budget as a start, we have estimated inflation and major unavoidable budget pressures. The details are analysed further in this report, we conclude these could add up to £1.6m to our costs.

The net difference in the additional income received from rent increases and the Housing subsidy paid over to ODPM is likely to be £250,000. The Major Repairs Allowance is estimated as £5.1m.

Table 1 – Spending pressures and resources in 2003-4

	£	£
Balanced Budget		
One-off adjustments from 2002-3 budget	-153,100	
Plus inflation (table 2)	521,700	
Plus major unavoidable pressures (table 3)	1,433,700	
Less reduction in debt charges	-160,000	
Additional cost of standstill budget 2003-4		1,642,300
Less Rents & Income	-1,100,000	
Less Housing Subsidy	850,000	-250,000
Likely Ongoing budget pressure		1,392,300

Inflation

One of the largest single cost pressures each year is wage inflation. This is because much of our costs are salary related, and wage inflation tends to run ahead of general price increases.

The proposed pay settlement will add £169,500 to next year's cost. The HRA has not previously had price inflation applied to general expenditure. In order to be consistent with the General Fund, inflation of 2% will be applied. This will add costs of £78,200. Inflation has not been applied to the Building Repairs contract for some years, if this is applied it will add costs of £200,000.

No assumption has been made about inflation on income. Income other than rents comes from Service Charges, Garages and Estates Shops. The latter two are particularly responsive to increases in charges. Service Charges are the subject of a much larger review and although it is likely that service charges will increase, there may also be an increase in the level of services to bring them up to the levels likely to be demanded.

Table 2 – Inflation in 2003-4

	£
Pay	169,500
Price	78,200
Contract & SLA inflation	74,000
Inflation on repairs contract	200,000
Total	521,700

Unavoidable Budget Pressures

The Business Planning process means Business Managers are responsible for anticipating budget pressures and finding ways of containing those pressures (which include manifesto commitments) within their budgets.

However there are some budget pressures that are genuinely corporate and usually unavoidable. It makes more sense to manage these centrally. There are six major factors we currently know about:

- The recent pay settlement will increase our baseline salary budget by £24,200.
- Our pension provider (the County Council) has indicated that, after an actuarial review in 2001, our pension contributions will increase by £42,300 in 2003-4.
- The government has announced that employers' national insurance contributions will rise by 1%; adding £16,200 to our wage related costs.

- Council in July committed to a two year stock condition survey programme resulting in £100k expenditure in 2003/4
- Day to Day Repairs has not been contained within the current budget; existing policies will have contributed to the resultant pressure of £1,000,000. One way of dealing with this pressure is to change the repairs policy and reports have gone to Housing Scrutiny suggesting changes.
- There are a number of changes to the conditions of the manual workforce that will increase the costs of Oxford Building Solutions. Of this approximately £251,000 falls to the HRA.

Table 3 – Spending Pressures 2003-4

	£
Full year effect of 2002 pay award on base budgets	24,200
Increase in employer pension contributions	42,300
Increase in employers' national insurance contributions	16,200
Stock Condition Survey	100,000
Day To Day Repairs	1,000,000
Changes in conditions of Manual workforce	251,000
TOTAL	1,433,700

Uncertainties

There are many uncertainties in expenditure that are not possible to calculate at this moment. These are:

- The impact of the supporting people legislation
- The impact of the stock condition survey results on Day to Day repairs and major capital works
- The review of the Right to Buy scheme by ODPM

External Finance

Housing Subsidy

The Draft Housing subsidy determination has been received from ODPM. The reduction in subsidy is likely to be £850,000. The draft determination appears generous in respect of increases in management and maintenance allowances. There is no commitment from ODPM that this will continue.

Rents

The figure for Rental income assumes that RTB will continue so the housing stock will fall year on year. The draft subsidy determination indicates that rents are expected to rise by 3.5%. The estimated additional income is £1,100,000 in 2003-4. This figure will vary depending on the type & size of properties sold under RTB and any other disposals or demolitions that may take place.

Future Years

The financial position for the next 3 years is shown below.

Table 4 – The outlook for future years

	2003-4	2004-5	2005-6
	£	£	£
One-off adjustments from 2002-3 budget	-153,100	-153,100	-153,100
Inflation	521,700	557,900	572,000
Other Certain Pressures	1,433,700	1,384,800	1,384,800
Less reduction in Debt Charges	-160,000	-160,000	-160,000
Total	1,642,300	1,629,600	1,643,700
Financing			
Income from Rents	-1,100,000	-1,050,000	-1,005,100
Reduction in Housing subsidy	850,000	836,500	852,000
Total	-250,000	-213,500	-153,100
Saving Required	1,392,300	1,416,100	1,490,600

The table shows that there is a financing shortfall of £1.4m in 2003-4.

Indicative Budget 2003-4

The proposed funding allocations to Business Units have been agreed by Portfolio Holders and are now recommended to the Executive Board. These are shown in Appendix 1.

Business managers are now tasked with examining all options for managing their services within the budgets proposed. The Business managers have produced 3 year business plans that indicate the way forward for their units, these will need to be adjusted in the light of the funding proposed.

Business Managers, in consultation with Directors, staff, tenants and members, have discretion over the precise allocation of budgets within the totals proposed. The level of budget set does not presuppose the inclusion or exclusion of any post, project or item within that business function or Business Unit.

For HRA Business Managers to work within the proposed budget targets will be challenging. To make the consultation exercise meaningful with tenants Business Managers have already identified with the Portfolio Holders possible service changes necessary to ensure tight financial targets are achieved. Possible service developments and other changes next year are likely to include:-

- An improved caretaking & cleaning service
- The continuation of a free garden scheme for those in need
- A possible one year reduction in the scale of structural investment in the housing stock through its capital and planned maintenance programmes
- Efficiencies to be found from within Oxford Building Solutions
- Some efficiencies to be found from within Housing Management.
- A change in repairs policy which will put further responsibility on the tenant for some repairs currently carried out by the Council
- Investment in rent recovery

The strategy for dealing with the £1.4m budget shortfall this year contains a proposal to fund £750,000 of the Planned Maintenance budget for 2003/2004 from capital rather than revenue. This is a short-term measure which will not be sustainable in future years.

This will allow time for full-scale reviews of ALL expenditure within the Housing Revenue Account with the aim of reducing it permanently. These reviews have already begun with work being carried out by both the Portfolio Holders and the Housing Scrutiny Committee year in consultation with staff and tenants. The targets for expenditure in 2004/2005 and 2005/2006 will have to be met by this review process. A detailed timetable for this review will be presented as part of the final HRA budget.

Table 4 shows that the outlook for the 2004/05 and 2005/06 financial years will not improve without action to reduce ongoing costs permanently. Any short-term measures this year that do not do this will add to this future challenge.

The outcome of the stock condition survey is not expected until March 2003 at the earliest. This will be too late to influence the 2003/04 budget decision. However, it will be instrumental to the Council's HRA Business Plan 2004/05 which must be submitted to the Government Office South East (GOSE) for their evaluation by July 2003.

Amongst other things GOSE will require convincing that the Council has the means and plans to achieve the Decent Homes target by 2010. Next Spring

the Council will need to consider their ability to achieve this. Any reduction in planned maintenance or capital expenditure to the stock essential to help achieve the Decent Homes target will be viewed negatively by GOSE.

The Next Steps

This budget will be released as the indicative budget for consultation. During the consultation period, Business Managers will be working closely with their portfolio holders on proposals for changes in service. At the same time the Section 151 officer will closely examine all proposals to ensure that they are properly assessed and the consequences examined. The budget will alter as a result of these examinations and once the Housing Subsidy figures are confirmed by central government.

The results of the consultation process, the confirmation of the level of Housing Subsidy, the detailed examination of the Section 151 officer and the detailed proposals of officers will all be considered by the Executive Board in February 2003 and a reviewed and revised budget will be recommended to Council for acceptance.

As part of the longer term planning, there are a series of Best Value reviews and other reviews of key areas. The reviews undertaken of Homelessness and Oxford Building Solutions in 2002-3 have fed into the budget proposals in this report. Further reviews are planned and a programme of reviews will be presented to Executive Board in the new year.

<p>THIS REPORT HAS BEEN SEEN AND APPROVED BY: Cllr Smith, Portfolio Holder. Cllr Hollingsworth, Leader of the Council Mark Luntley and Neil Gibson, Strategic Directors</p>
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Background papers:

- Report to Finance Scrutiny 19th September 2002, Short-term Financial Outlook
- Report to Council 4th March 2002, HRA Budget setting report

SUMMARY OF PROPOSED BUDGET				
Housing Revenue Account		Proposed Budget		
Business Unit		03/04	04/05	05/06
		£	£	£
Strategic Policy & Research				
	Housing Policy	36,724	36,724	36,724
	Net effect of Recharges	16,653	16,653	16,653
	Total	53,377	53,377	53,377
Financial Management				
	Housing Finance	304,032	304,032	304,032
	Net effect of Recharges	-179,203	-179,203	-179,203
	Total	124,829	124,829	124,829
Customer Services				
		230,051	230,051	230,051
	Net effect of Recharges	34,756	34,756	34,756
	Total	264,807	264,807	264,807
Oxford Building Solutions				
	Caretaking & Cleaning Service	458,051	533,051	533,051
	Grounds Maintenance Contract	85,300	30,300	30,300
	External Contractor's Day To Day	237,527	237,527	237,527
	OBS Day to Day Repairs	3,028,519	2,702,269	2,502,269
	Planned Maintenance	2,424,461	2,999,461	2,999,461
	Administrative Staff Repairs	999,585	977,085	957,085
	Contract Costs	422,763	272,763	272,763
	Net effect of Recharges	326,171	326,171	326,171
	Total	7,982,377	8,078,627	7,858,627
Neighbourhood Renewal				
	Housing	170,267	175,533	175,533
	Anti-social Behaviour Order	33,723	26,910	26,910
	Housing Advice	29,866	29,866	29,866
	Net effect of Recharges	-10,335	-10,335	-10,335
	Total	223,521	221,974	221,974
Housing Services				
	Local Housing Teams	1,488,449	1,404,449	1,329,449
	Tenant's Forums & Grants	203,431	203,431	203,431
	Elderly & Warden Services	345,112	345,112	345,112
	Supporting People Funding	-345,112	-345,112	-345,112
	Housing Services - mgnt	545,805	554,640	554,640
	Tower Block/Shop Services	350,147	350,147	350,147
	Rent, admin, subsidies etc	-12,128,161	-12,162,161	-12,162,161
	Homeless Admin Management	457,584	432,584	407,584
	Net effect of Recharges	802,850	802,850	802,850
	Total	-8,279,895	-8,414,060	-8,514,060
HRA Admin				
	HRA Admin	149,400	149,400	149,400
	Net effect of Recharges	-176,047	-176,047	-176,047
	Total	-26,647	-26,647	-26,647
Total		342,369	302,907	-17,093
Agresso Total 8/11/02 difference				
Inflation, NI, Super future years				
	Inflation		357,900	729,900
	NI		0	0
	Super		51,100	51,100
Revised Total Expenditure		342,369	711,907	763,907
CHANGES IN FUNDING AVAILABLE				
	Rents & Income	1,100,000	1,050,000	1,005,100
	less reduction in Housing subsidy	-850,000.00	-836,500.00	-852,000.00
Total Change in Funding Available		250,000	213,500	153,100

Business Unit		03/04	04/05	05/06
		£	£	£
Budget Deficit		92,369	498,407	610,807
SLA/Contract Inflation (not included in BPs)		74,000	74,000	74,000
Revised Budget deficit		166,369	572,407	684,807
Possible Changes				
	Inflation, Super as Efficiency	0	409,000	781,000
	Efficiency Savings in Recharges from G	100,000	100,000	100,000
	Reduction in Debt Charges	160,000	160,000	160,000
	Subtotal	260,000	669,000	1,041,000
Total Budget Surplus/Deficit		-93,631	-96,593	-356,193