

Report to: Executive Board 12th December 2001

<p>Report of: <i>Chief Executive, on behalf of the Strategic Management Board and Section 151 Officer</i></p> <p>Report Author: Sarah Fogden</p> <p>Lead Member Responsible: D Connett</p> <p>Economic and Social Well-being Overview and Scrutiny Committee <i>Responsibility: Finance</i></p> <p>Key Decision: Yes</p>	<p>WARDS AFFECTED ALL</p>
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SUMMARY AND RECOMMENDATIONS

This report sets out the INDICATIVE Housing Revenue Account base budget for 2002/2003, after taking into account the draft Housing subsidy proposals released on 26th November 2001. The Annex sets out the cost of continuing with ongoing services less one-off bids in 2001/2 and adding back one-off savings from 2001/2.

Members are reminded of the statutory need to set a deliverable balanced budget for 2002/03.

Forecast Budget

1 Budget Details

- 1.1 Annex A starts from the balanced base budget position of 2001/2. It adds back in one-off Savings and removes one-off bids. Expenditure pressures are then added in. The main pressures are loss in subsidy, Day to Day Repairs, income shortfalls identified in 2001/2 and inflation. The net affect of these changes is a deficit of £1,506,510.
- 1.2 The Draft Housing Subsidy released on 26th November results in a £1,047,000 subsidy loss. This loss is due to the DTLR's assumptions for rental income collected by the authority. The government has assumed that rents will rise by 3.5% this year and move 10% towards

the restructured rent. The 3.5% increase is 2.5% assumed for inflation and 1% assumed in the Spending Review 2000.

2 Budget Proposals

2.1 Attached at Appendix B is the Strategic Management Board's draft budget proposals (budget reduction) totalling £1,506,510. If these are acceptable to Members, a balanced indicative budget is being proposed by the Strategic Management Board at this stage. There is no contingency for unfunded initiatives

2.2 The budget for next year has been prepared, for the first time, using the Business Planning process. The outcomes of these have been circulated previously to Members. The new initiatives and expenditure pressures identified in the plans are included in the appendices and contribute towards the deficit. Any bids or new initiatives identified by Members will require compensating savings

2.3 Inflationary Assumptions

The following inflation has been allowed for -

- Pay Inflation of 4%,
- Supplies and Services inflation of 0%;
- Inflation on SLA recharges from the General Fund 4%,

3 Use of Balances

3.1 Members are reminded that it is financially prudent to maintain a reasonable level of balances. The District Auditor has in the past indicated that a prudent balance is £500k.

4. Rent Restructuring

4.1 Draft Subsidy Determination

The Housing Subsidy figures are based on the Draft Subsidy Determination published by DTLR and this may change when the final version is published.

4.2 Practical Implications

The Draft Subsidy Determination assumes that authorities will move towards Rent Restructuring in 10 equal stages. In a statement in the Commons the Secretary of State for Transport, Local Government and the Regions stated "I understand that the computer systems used by some local authorities limit their ability to apply different rent changes to different properties next April. I am advising those authorities that for 2002-03 they should apply the average percentage rent change

suggested in our restructuring proposals for their stock to all of their rents except where this might involve breaches of the RPI + 0.5 per cent. +£2 limit, or the maximum rents announced today. The subsidy system will not penalise authorities for not implementing the reforms at an individual property level".

- 4.3 HMIS, the computer system used by Oxford has not yet been upgraded to deal with rent restructuring. Officers have been working on rent restructuring for some time and have manually replicated the rent information held on HMIS. Although the rent according to the formula has been calculated for each property, it is not possible for Officers to report conclusively whether the efforts to replicate the system have been completely successful
- 4.4 Officers at this stage recommend that the 3.5% general increase is consulted upon as the Authority will not be penalised further by this approach. Members are reminded that until the authority sets rents at the limit rent set by DTLR, the authority will continue to suffer from Rent Rebate Subsidy Limitation. The average rent with a 3.5% increase will be £57.19 compared to the limit rent of £51.97 resulting in a £1.1 million net cost of Rent Rebates.
- 4.5 The DTLR new formula rent for Oxford is £66.84. The implication of this is that subsidy will be withdrawn over the next 10 years quicker than the Council will be able to raise rents. So the DTLR will assume a change in rent from £51.97 to £66.84 whilst the scope for increasing rent is only from £57.19 to £66.84.
- 4.6 If officers are satisfied that the replicating exercise is successful then it will be possible to implement Rent Restructuring from April 1st 2002. It will be advantageous to begin rent restructuring as soon as possible in order that Tenants in later years are not burdened with increases which could have been spread over a longer period. It is also proper that tenants with reducing rents benefit as soon as possible
- 4.7 Part of the Rent restructuring policy is to separate out Rents from Service Charges. The Draft Housing Subsidy Determination makes no mention of the Government's definition of what counts as a Service Charge. The DTLR have indicated that guidance will not be forthcoming until the new financial year. Officers are therefore reluctant to phase in Service Charges without having the definition to work with and without knowing the full implications for Rent Rebates and Rent Rebate Subsidy Limitation. Not implementing service charges but implementing the 10% move to rent restructuring may cause confusion for tenants. In general the tenants living in blocks are those who will see rent reductions but will also attract service charges once these are implemented

5 Comments on Savings Areas

5.1 Repairs Budgets

The Business Manager for Oxford Property Solutions has indicated that an additional Day to Day Repairs budget of £1 million is needed and a PPJ budget of £550,000. The resources available for the HRA only allow £300,000 additional budget for DTD repairs and £400,000 for PPJ. The Business Manager has been requested to indicate in detail the impact upon the level of repairs that the Council can offer within the budget constraints.

5.2 Bids

A number of annual recurring bids have been removed from the budget.

5.3 Staff Savings

Some of the staff reductions are likely to be through voluntary redundancy. The costs of this can be funded from additional underspends in 2001/2 that will result from the vacancy and spending freeze. This is likely to be in the region of £100k to £150k.

6 Requirements of a Balanced Budget

6.1 The Council's statutory financial officer (the Section 151 officer) has a legal responsibility to ensure that the Council approves a deliverable balanced budget. The responsible officer has the authority, if he so wishes, to refer matters back to Council in order to satisfy himself that a properly balanced budget has been achieved. Members are reminded of this fact and their responsibilities in ensuring that a properly balanced budget is set.

7 Recommendations

7.1 Members are asked to

- a. note the suggested budget realignments as recommended by the Strategic Management Board
- b. note the practical problems of rent restructuring and that a 3.5% rent increase will not incur further subsidy penalty
- c. request the SMB to define the scope and role of the HRA Business Units through modified business plans
- d. agree that the contents of this report form the basis of the Council's indicative budget for consultation purposes

THIS REPORT HAS BEEN SEEN ON 12th Dec BY.

Councillor Connett, Portfolio Member for Housing
The Chief Executive, on behalf of the Strategic Management Board
The Council's Section 151 Officer

HRA Budget Deficit

£

Changes in Base Budget
Assuming no Rent Increase

Balanced Budget as 1/4/01

Add in One-Off Savings

Best Value Savings:

General Expenses	80,960
Caretaking	9,331
Heating Communal	2,525
Grass & tree Maintenance	3,628
Repairs Administration	26,532
Repairs - transport	15,000

PPJ - reinstate budget

800,000

Total One-Off Savings to be added back

937,974

Remove One Off expenditure

Drf Schemes:

Heating Upgrades	120,000
Upgrade u/floor heating	82,718
Rewiring	75,000
Kitchen Upgrades	125,000
Garage Improvements	140,000

One off Bids:

Stock Condition Survey	25,000
Target Hardening	50,000
REMS Scheme	50,000
Oxford in Bloom	20,000
Mediation	10,000
Forum	127,000
Garden Scheme	151,000
Shopping Precinct Improvements	20,000
Energy/Environmental Improvements	10,000
Early Viewing Scheme	20,000

Total One Off Expenditure Removed

1,025,718

Expenditure Pressures

Loss in Subsidy

1,047,026

Guideline Rent has increased by £3.45 per week
3.5% increase + 10% movement towards formula rent

Rent Shortfall 01/02

Loss of income due to RTBs in 02/03

Garage Rent shortfall

SLA inflation

Employee Inflation

Contract Inflation

300,000
431,028
180,000
59,800
201,500
3,879

150 estimated RTBs

2,223,233

Known Reductions

Credit Ceiling - Debt charges

628,979

628,979 changes in credit ceiling from Subsidy & interest rates

Deficit

1,506,510

Deficit	1,506,510	Notes
Rent Rise	- 835,000 - 275,000	1% rise increase to 3.5%
Repairs Increase Repairs budget	300,000	in line with additional balances requested in 01/02 use MRA for capital void works Essential Annual Programme
Electrical Testing	300,000	
Reduce PPJ	400,000	
Repairs Staffing	104,000	
OAP Decorations	150,000	OBS restructuring Options for reducing expenditure through more innovative use of vouchers
Housing Management 2% staff turnover saving	- 105,000	In line with General Fund budgets
Review all Documents & Procedures & Consultation	15,000	
LHO equipment	15,000	
REMS Scheme	70,000	
Forum Budgets	60,000	
Bids - CANACT	5,000	
Target Hardening	25,000	
Stock Condition Survey	10,000	
Permanent Staff Savings	- 270,000	through redundancy programme, admin review & service rationalisation
Reduce Training	- 11,510	
Reduce Supplies & services Expenditure	- 56,000	5% reduction
Recruitment Freeze	- 100,000	
Running Total	- 1,506,510	
Outstanding Deficit	-	