

## **COUNCIL**

**29 JULY 2010**

### **BUDGET MONITORING REFERRALS**

Portfolio Holder: Councillor Alan Jarrett, Finance  
Report from: Neil Davies, Chief Executive  
Author: Mick Hayward, Chief Finance Officer

#### **Summary**

This report presents two referrals from the revenue monitoring report considered by Cabinet on the 20 July 2010 in respect of a virement of resources and a revision to the housing rents approved by Council on 25 February 2010.

#### **1. Budget and Policy Framework**

- 1.1 In accordance with the constitution, these changes to the revenue budget and the housing rents are a matter for Council.

#### **2. Background**

- 2.1 The regular monitoring of budgets by Cabinet has revealed two areas where a Council decision is required to amend the allocation of resource and the level of housing rents.
- 2.2 Cabinet considered a report on Revenue Budget Monitoring on 20 July 2010 and recommended to Council a virement of resources to change the nature of facilities offered at Chatham Sports Ground. The same report also revealed that an error had been discovered in respect of the rent setting for 2010/2011 resulting in an excessive rent being charged and Cabinet requested a report be put to Council. These issues are set out below.

#### **3. Chatham Sports Ground**

- 3.1 In approving the revenue budget for 2010/2011 at the Council meeting on 25 February 2010, the budget amendment moved by Councillor Jarrett included a specific sum of £12,000 for Maidstone Road Sports Ground toilet conversion with a further £7,000 for recurring running costs. However, following consultations with local residents and councillors, the former toilets were demolished. There is local support for the provision of 5-a-side facilities at the site and this is now requested to receive the

allocated funding. As the original budget proposal was for a specific scheme agreed by Council the agreement to such a change is now sought from Council.

#### **4. Housing Rents**

- 4.1 In producing the revenue budget monitoring for May 2010, officers discovered that an error had occurred in the calculation of rents for 2010/2011 and that Council, at the meeting on 25 February 2010, had agreed rent levels that were incorrect.
- 4.2 The overcharge arose as a consequence of an administrative error in using the baseline rents that had originally been approved for 2009/2010 at the Council meeting on 26 February 2009. Unfortunately, following ministerial amendment to the guideline rent increase, after the Council set the rents, the original rent figures were revised downwards at the Council meeting on 18 June 2009. The effect of using this incorrect baseline has been that average rents have been overstated by £1.37 per week. However it should be noted that some 68% of tenants are in receipt of Housing Benefit and as a consequence the increase or the proposed change will have no real effect with adjustments being made against the benefits paid to the Council as landlord. The increase for 2010/2011 reported at the time as being £0.99 should in fact have been £1.25. Whilst this increase is greater, the starting point should have been an average rent of £69.48 rather than the £71.11 from the original calculations. The table below summarises the average data.

		Average £ per week		Increase £ per week
Original 2009/2010 rent	a	71.11		
Revised 2009/2010 rent	b	69.48		
Current 2010/2011 rent	c	72.10	c-a	0.99
Corrected 2010/2011 rent	d	70.73	d-b	1.25
Overstated 2010/2011 rent			c-d	1.37

- 4.3 The rental income shown for the Housing Revenue Account (HRA) was calculated using the incorrect rent as well and as a consequence the gross rent received in the HRA budget was overstated by £208,920. This has the effect of reducing the expected surplus on the HRA from £1,242,000 to £1,033,000.

#### **5. Financial and Legal Implications**

- 5.1 The financial implications are set out in the report.
- 5.2 There is a statutory notice period of 28 days for changes to rents which will delay the implementation of the reduction so as to have effect from week commencing 23 August 2010, if Council are minded to accept the recommendation to amend the rents.

## **6. Risk Management**

- 6.1 The proposal to vire resources to the 5-a-side improvements is risk free with the additional facilities and equipment capable of being constrained to the budget provision.
- 6.2 The proposed change in housing rents carries a reputational risk to the Council and there will need to be a careful explanation to tenants to enable them to understand the impact and why it occurred. There is also a financial risk in that the level of rent achieved will not be as originally estimated and there will be some minor costs associated with the change, such as postage for the 3,000 revised notices and the 2,000 benefit changes. The major financial risk in terms of rental income can be managed within the surplus that had already been predicted for the HRA but will mean that reserves will not be as high as originally forecast. This is not likely to impact significantly on future stock improvements.

## **7. Recommendations**

- 7.1 That Council approves the virement of funds to develop 5-a-side football facilities at Chatham Sports Ground as set out in Section 3.1 of the report.
- 7.2 That Council approves the reduction in housing rents, to be backdated to the 5 April 2010 (week 1 of the rent year). This is to take effect from week 21 having issued appropriate notice to tenants. The average increase in rents for 2010/2011 over 2009/2010 will then be £1.25 per week or 1.8%.

### **Lead officer contact**

Mick Hayward, Chief Finance Officer, Gun Wharf, Tel (01634) 332220,  
E-mail [mick.hayward@medway.gov.uk](mailto:mick.hayward@medway.gov.uk)

### **Background papers:**

Report to Council 25 February 2010, Capital and Revenue Budgets 2010/2011  
Report to Cabinet 20 July 2010, Revenue Budget Monitoring 2010/2011