

TO: THE EXECUTIVE
12 DECEMBER 2006

**HOUSING REVENUE ACCOUNT
AND HOUSING INVESTMENT PROGRAMME 2007/08
(Chief Executive/Director of Corporate Services/
Director of Social Services & Housing)**

1 PURPOSE OF DECISION

- 1.1 The Housing Revenue Account forms an important part of the overall budget proposals and will determine the level of expenditure on housing and the associated rent levels for the next financial year. This report draws together the major financial issues affecting the HRA so that the Executive can agree the draft HRA Budget and the consequent level of rent increases for 2007/08 as the basis for consultation with tenants.
- 1.2 As part of the "Your Homes" Project the Stock Options Financial Appraisal was updated in July 2006 and given the conclusions of this, which have been updated further and form the basis of the budget projections presented in this report the council decided to consult tenants further on a transfer proposal with a ballot planned for March 2007.
- 1.3 The provisional Housing Determination was published on 7th November 2006. Following the publication of the final determination, estimated to be in December 2006, a final budget projection will be prepared outlining the likely level of income and expenditure within the HRA covering the period 2007/08 to 2010/11.

2 RECOMMENDATION(S)

- 2.1 **That the draft proposal for the Housing Revenue Account budget for 2007/08 be agreed as the basis for consultation.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 The reasons for the recommendations are outlined in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The full range of options considered is included in the report.

5 SUPPORTING INFORMATION

Housing Revenue Account

- 5.1 The HRA is a ring-fenced account and as such stands separate from the General Fund. Local Authorities have no general discretion to transfer sums out of the HRA or to support the HRA with contributions from the General Fund.
- 5.2 The provisional Subsidy Determination was received from the Government on 7th November 2006. This is used to calculate a "model" HRA from which the level of central government support for housing is determined alongside the Formula Rent

targets that local authorities must adhere to. Social Rent Reforms were introduced in 2002/03 in order to standardise the relative level of Local Authority housing rents throughout the country.

- 5.3 A consequence of Social Rent reform is that the setting of a target rent removes all local accountability in determining local rents. As such there is little scope to consult tenants on the level of rent increase for 2007/08. Furthermore this regime reduces significantly the ability of the Council to provide additional investment in the housing stock through targeted rent increases.
- 5.4 The council will be required to increase the average rent by 5% in 2007/08 in order to ensure that the average local rent converges with the target formula rent set by the Government. A key determinant in calculating the target rent each year is the increase in the level of inflation. The Retail Price Index is used to reflect this price inflation within the rent formula calculation and for 2007/08 the relevant figure was 3.6%, the highest rate in over 5 years.

Base budget 2007/08

- 5.5 As a result of the subsidy system there are few local determinants to the overall Housing Revenue Account Budget. Rental income, which makes up 94% of the total income generated within the account, is now largely determined by the level of rent increase that the Council must make in line with the Rent Restructuring Formula.
- 5.6 Within the expenditure side of the account, excluding the change in Negative Subsidy (i.e. payment to the government); the key change in underlying expenditure is reflected in the inflationary increase discussed below.
- 5.7 As such, the preparation of the 2007/08 budget is primarily a process of determining the additional level of income that will result from the Rent Restructuring Formula increase, identifying the change resulting from the latest Subsidy Determination and increasing expenditure to reflect the costs of Inflation. The following paragraphs discuss these areas in greater detail, leading to a 3 year projection of the likely position of the Housing Revenue Account attached in Annex A.

Housing Subsidy

- 5.8 There are no significant changes to the Subsidy System planned for 2007/2008. The Rent Target has increased by 7.5%, whilst the Management Allowance has increased by 6% and the Maintenance Allowance by 4.5%. The level of Major Repairs Allowance has been increased by 2%. The impact of these uplifts to the notional HRA Subsidy Model is to increase the Negative Subsidy payable to the Government in 2007/08 to £10.098m, a rise of £1.066m. This more than offsets the additional income that will be raised locally from the 5% increase in rents.

Rent Increase

- 5.9 Following the introduction of rent restructuring in 2003/03, the Council is limited to increasing its rents in line with a formula defined by the Government. The implications of increasing rents above the guideline now have a direct impact on the Council with the removal of rebates from the HRA in 2004/05. Any increase above the formula calculation will simply result in an additional cost via the Housing Benefit Subsidy Limitation.
- 5.10 The rent restructuring formula is a fixed calculation that sets a target rent but reflects the underlying increase in costs through the inclusion of an allowance for inflation. The resulting increase in rents, calculated using the Rent Restructuring Formula to ensure that local rents converge with the target rent by 2011, is 5% for 2007/08. This increase will generate net additional income of £781,000.

Inflation, Pay Awards and Fees and Charges

- 5.11 With pay and price inflation currently running at 3.6%, inflation will clearly impact on budgets. At this stage it is suggested that allowances for price inflation should be in line with principles governing inflation increases in the General Fund budget.
- General RPI – 3.6%
 - Repairs & Maintenance (undertaken by BFS) – 4.82%
 - Landscaping (undertaken internally) – 3.3%
 - Pay Awards – 2.0% (fully funded)

The overall inflationary costs assumed within the Budget Proposals amounts to £395,000 for 2007/08 and future years. This is summarised in Annex B

Service Developments and Pressures

- 5.12 The HRA faces other total pressures of £261,000; the individual elements which make up this total are summarised in Annex C.
- 5.13 Savings of £244,000 have been identified in 2007/08 and an analysis of the items that makeup these savings are identified in Annex D.
- 5.14 In addition to target savings which formed part of the HRA business plan additional income has been identified through the recovery of costs attributed to leaseholder dwellings.

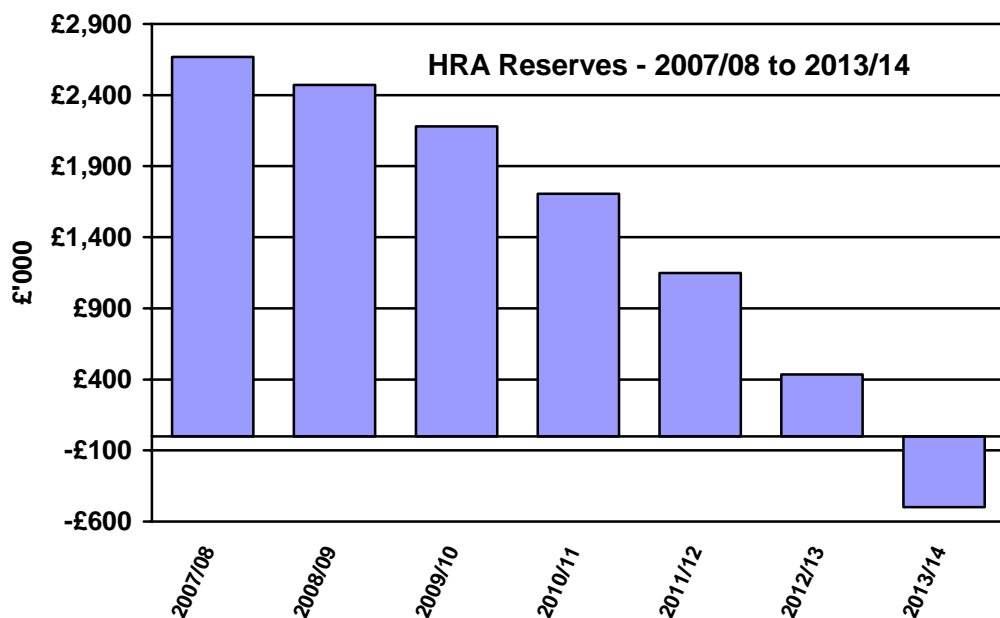
2007/08 – 2010/11 Budget Projections

- 5.15 The overall net position on the HRA is therefore projected to be a surplus of £296,000 in 2007/08 as outlined in Annex A and this will be added to the HRA Reserves in order for the account to stay above the minimum level of reserves over the planning period to 2011/12.
- 5.16 However as shown in the table below the HRA will move into an annual deficit position in 2008/09 and as such will require the reserves that have been purposefully built up over the last two years to be used to balance the account. The table also highlights that this annual deficit will grow year-on-year. Under the current assumptions the HRA Reserves will fall below the prudent minimum level in 2013/14.

Year	2007/08	2008/09	2009/10	2010/11
Surplus / Deficit	-296	197	293	473

5.17 These budget projections assume no additional costs over and above inflation within the HRA and an average increase in rents in line with the Rent Restructuring formula. The underlying problem for the HRA over the next 5 years is that the Subsidy regime will require the Council to make ever increasing Negative Subsidy Payments to the Government which, when taken together with the inflationary increase of Management and Maintenance costs within the HRA, will generate costs greater than the additional income raised from the rent increase.

5.18 The chart below shows the projected level of the HRA reserves over the period to 2012/13 and how it will fall below the prudent minimum level in 2013/14 if no further action is taken in the intervening period.



5.19 As noted above the most significant variable financial factors within the HRA are controlled by the government. A number of general assumptions have been made on future stock and inflation levels. However the most significant changes to the medium term budget projections will result from future government policy on the redistribution of housing resources within the country and its view on national levels of social rents. The latest Housing Determination sets the key funding parameters for 2007/08 only; a more comprehensive picture for future years should be available following the publication of the Comprehensive Spending Review in July 2007.

Housing Maintenance and Improvement Programme

- 5.20 The Capital Housing Improvement Programme for 2007/08 - 2009/10 is detailed in Annex E and is also included within the Capital Programme Report on tonight's agenda.
- 5.21 As part of the "Your Homes" Project the Council undertook a comprehensive Stock Condition Survey in November 2006 to identify the level of spending needed to meet both the full investment requirement of the Housing Stock and the minimum level of investment required to meet the Decent Homes Standard by 2010. The outcome of this work indicates that there is a shortfall of approximately £39m to meet the full investment requirement by 2010 and a reduced gap of £15.5m to meet the Decent Homes Standard only. This is very much in line with previous estimates.
- 5.22 The gap between resources available and those needed to meet the DHS can be reduced to £10.3m if the Council was to adopt a policy of allocating all future Right-to-Buy receipts over the next 4 years to investment in the housing stock. However for planning purposes, and given the uncertainty regarding the level of these future receipts, no account has been taken of this at this stage.
- 5.23 Following the outcome of the "Your Homes" Ballot in March it will therefore be necessary to review the Council's position in terms of its ability to meet the Decent Homes Standard and how it wishes to allocate the actual receipts received in 2007/08 as part of the 2008/09 Budget deliberations.
- 5.24 This analysis is being used to develop the Offer Document that will be presented to Tenants as part of the "Your Homes" Ballot highlighting the comparative level of improvements that tenants are likely to receive under the two alternatives of retention or transfer.

Tenant Consultation

- 5.25 Tenants are being kept fully informed of the budgetary position, both Revenue and Capital, as a result of the consultation exercises that are taking place as part of the "Your Homes" Project.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 There are no additional legal implications relating to this report.

Borough Treasurer

- 6.2 The methods to be employed to keep the account in balance are not specified in the regulations. As such it is for the Executive to determine both the income and expenditure measures necessary to avoid the account showing a deficit.
- 6.3 A working balance must be provided to meet any cash flow needs and also meet any unexpected budget pressures that may arise during the year. Reserves and provisions can be created to cover the irregular flow of expenditure and income and thus avoid temporary distortions in rent levels. The prudent level of balances considered appropriate by the Borough Treasurer should be at least £500,000.

Impact Assessment

- 6.4 The Council's final HRA budget proposals will potentially impact on many areas of the community. A detailed consultation process is planned in order to provide tenants the opportunity to comment on the draft proposals. This will ensure that in making the final recommendations the Executive can be made aware of these views

Strategic Risk Management Issues

- 6.5 As noted above the most significant variable financial factors within the HRA are controlled by the government. A number of general assumptions have been made on future stock and inflation levels. However the most significant changes to the medium term budget projections will result from future government policy on the redistribution of housing resources within the country and its view on national levels of social rents.

7 CONSULTATION

- 7.1 Tenants will be consulted in line with paragraph 5.25 and further details of the Council's overall Budget consultation arrangements are set out in the Chief Executive's covering report.

Background Papers

None

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Housing Revenue Account - Budget Projections 2006/07 to 2013/13

	2006/07 Budget £'000	2007/08 Proposed £'000	2008/09 Model £'000	2009/10 Model £'000
Income				
Dwelling Rents	-20,994	-21,775	-22,610	-23,566
Other Rent	-1,319	-1,344	-1,393	-1,448
Other Income	-1,380	-1,536	-1,536	-1,536
	<u>-23,693</u>	<u>-24,655</u>	<u>-25,539</u>	<u>-26,550</u>
Expenditure				
Repairs & Maintenance	4,590	4,636	4,616	4,596
Supervision & Management	2,711	2,686	2,686	2,686
Special Services	3,218	3,370	3,370	3,370
Rents, Rates & Other Charges	281	281	281	281
Inflation	0	395	790	1,185
Pension Reserve	-76	-76	-76	-76
	<u>10,724</u>	<u>11,292</u>	<u>11,667</u>	<u>12,042</u>
Cost of Services	-12,969	-13,363	-13,872	-14,508
Depreciation	4,037	4,103	4,158	4,247
Negative Subsidy	9,033	10,099	10,856	11,583
Subsidy Limitation	500	317	410	290
Interest	-1,294	-1,452	-1,355	-1,319
Net Cost of Services	-675	-296	197	293

Inflation in 2007/08 within the Housing Revenue Account

Inflation	£'000
Employees	163
Premises	204
Transport, Supplies and Services	28
Recharges	36
Fees and Charges	-36
Total Inflation	395

Pressures in 2007/08 within the Housing Revenue Account

Pressures	£'000
Loss of Right to Buy Income	21
Budgeted income originally assumed that approximately 100 sales would be achieved each year; this has been revised to assume that approximately 50 sales will continue to be achieved into the foreseeable future.	
Rubbish Clearance Garage Areas	22
The HRA are experiencing problems with rubbish being left in HRA garage areas. There is a current budget pressure for out contractor Ringway to clear this rubbish whilst maintaining the garage areas.	
Aids & Adaptations	130
Demand for aids and adaptations continue to increase. Waiting lists have reached an all time high. Current waiting lists show 9 major works, 41 level access showers and 5 other works are outstanding. In addition to adaptations further staff resources are needed to meet and manage the back log and waiting times. A dedicated resource to work with Children's services, Community Care, Environment and Housing is needed to prioritise works, co-ordinate and target resources.	
Housing Repairs System	81
The Interim arrangements put in place for the Housing Repairs System will continue into the foreseeable future. The cost to the HRA for Meritec Maintaining the system into 2007/08 is £81,120.	
Grants to Voluntary Organisations	7
The contractual agreement with REAP has been increased by £7,000 in 2006/07 impacting on the 2007/08 budget. REAP provide independent ongoing resettlement and community support services to enable clients to maintain their tenancies and advocacy and brokerage for tenants to enable them to access specialist services	
TOTAL	261

Economies in 2007/08 within the Housing Revenue Account

Economies	£'000
<p>Leaseholders Current Year</p> <p>The budget for leaseholder's current year is reviewed every year for sales and average price increases. The average service charge is £236.20, there are 1,000 flats sold, total income is £236,020. Further sales projected at 14 in 07/08 total £3,304. Income for recharges, in addition to budget is £147,004. Additional income is also achieved from insurance recharges of £20,000. Total income being a permanent adjustment to budget is £167,004.</p>	167
<p>Leaseholders Previous Year</p> <p>The budget for Leaseholders previous years should be reviewed every year to allow for Major works carried out in the year. Total consultations started are estimated to be £69,797. Estimated recovery rates (70% general recovered over 10 months but only 8 months in next year. 30% Hardship recovered over 36 months but only 8 months in next year) project income to be £43,740 in 2007/08. Budget is £33,500 additional income £10,240.</p>	10
<p>Reduction in Repairs to Reflect Sales</p> <p>This is a standing saving calculated each year to reduce the Repairs and Maintenance in line with the number of estimated sales for the year. This generates a £25,000 saving for 2007/08</p>	25
<p>Supplies and Services</p> <p>Various supplies and services savings have been achieved in Supervision and Management and Repairs and Maintenance Divisions totalling £42,000.</p>	42
TOTAL	244

Housing Maintenance and Improvement Programme 2007/08 – 2009/10

CAPITAL PROGRAMME - HOUSING IMPROVEMENT PROGRAMME

	2007/08 £000	2008/09 £000	2009/10 £000
Committed			
H1 Capitalised Repairs (Roofing, some void work, services, guttering etc.)	500	500	500
	<u>500</u>	<u>500</u>	<u>500</u>
Unavoidable			
H2 Health and Safety	100	100	100
	<u>100</u>	<u>100</u>	<u>100</u>
H3 Decent Homes/Rolling Programme			
Insulation (Grant Supported Programme	50	50	50
PVCu Window & Composite Door Replacement]		
Central Heating Replacements & Rewires]	2,050	2,350
Kitchen and Bathroom Replacements]		
Lift Replacements	200	100	100
Structural Repairs (Subsidence, brickwork etc.)	550	550	550
	<u>4,480</u>	<u>2,750</u>	<u>3,050</u>
H4 Other Works			
Improvements to common boiler systems	50	50	50
Landlords Services (Flats & Sheltered Accommodation)	40	40	40
Improvement Programme Common Areas of Flats	20	20	20
Safety & Security	50	50	50
Welfare Aids & Adaptations	160	160	160
Housing ITC	100	100	100
	<u>420</u>	<u>420</u>	<u>420</u>
TOTAL REQUEST FOR COUNCIL FUNDING	<u><u>5,500</u></u>	<u><u>3,770</u></u>	<u><u>4,070</u></u>