

Executive Committee

No Specific Ward Relevance

27th January 2010

HOUSING REVENUE ACCOUNT INITIAL ESTIMATE 2010/11

(Report of Head of Financial, Revenues and Benefits Services)

1. Summary of Proposals

To present Members with the Initial Estimates for the Housing Revenue Account for 2010/11 and the proposed dwelling rents for 2010/11. Also for members to consider a number of revenue and capital bids for the forthcoming three year period.

2. Recommendations

The Committee is asked to RECOMMEND that

- 1) the draft 2010/11 Estimates for the Housing Revenue Account attached to the report at Appendix A, be approved;
- 2) the actual average rent increase for 2010/11 is 2.6%;
- 3) the Housing Revenue Account bids for revenue resources categorised as unavoidable and high set out in Appendix B be approved as follows:

2010/11	£63,000
2011/12	£49,000
2012/13	£187,000;

- 4) the Housing Revenue Account bids for capital resources categorised as high and unavoidable set out in Appendix C be approved as follows:

2010/11	£600,000
2011/12	£730,000
2012/13	£6,020,000; and

- 5) the bid as recommended by the Overview and Scrutiny Committee be approved as follows:

Cleaning and maintenance of flooring at Three Storey Flats - estimated cost £6,000.

3. **Financial, Legal, Policy, Risk and Climate Change / Carbon Management Implications**

Financial

- 3.1 The Financial Implications are as set out throughout the report.

Legal

- 3.2 Section 76 of the Local Government and Housing Act 1989 requires that the Council sets its budget relating to the Housing Revenue Account such that the account does not plan to be in a deficit position.

Policy

- 3.3 The Council has since 2002/03 set its dwelling rents by reference to the rent formula introduced as part of the Government Rent Restructuring policy.
- 3.4 The Executive Committee sets Fees and Charges within the Council's Policy of a general budget guideline increase

Risk

- 3.5 It is important for budgetary control and forecasting purposes to ensure that the initial budgets are updated to take account of all known changes and that these are reflected in the initial estimates for the forthcoming year.

Climate Change / Carbon Management

- 3.6 There are no specific sustainability/environmental or climate change implications arising from this report.

Report

4. **Background**

- 4.1 This report only considers those items included in the Housing Revenue Account (HRA). General Fund items will be considered separately when setting the Council Tax.
- 4.2 The Council, through the system of Housing finance introduced by the Local Government and Housing Act 1989, has been subject to reducing external support to the Housing Revenue Account in the form of diminishing Housing Subsidy over the past few years. The

Council now pays in excess of £6 million to central government because it is in a negative subsidy position.

- 4.3 Rent restructuring was introduced in 2002/03. The objective of this is set out in a Government policy statement "Quality and Choice: A Decent Home for All – The Way Forward for Housing". It is proposed that rent setting in the social housing sector should be brought on to a common system based upon relative property values and local earnings levels. The intention was for there to be rent convergence between sectors within 10 years. Briefly, the rent increase each year should be based on an increase for inflation plus an adjustment of 10% of the difference between the formula rent and the actual rent on an individual property basis. The 10% adjustment, which is aimed at achieving the formula rent for all properties within 10 years, may result in an increase or decrease in rent.
- 4.4 The date for rent convergence has been reinstated to 2012/13. In 2009/10 it had been extended to 2023/24 because RPI for September 2008 was 5% and this would have resulted in rent increases of 9%.
- 4.5 During February 2010 the government is expected to set out the details of an offer to allow council housing services to be 'Self Financing'. The offer will be in the form of a financial settlement which individual authorities will be able to accept or reject. The offer may also have implications for the General Fund.
- 4.6 At the 18th November 2009 meeting of the Executive Committee Members considered a number of revenue and capital bids for the current year and the forthcoming three years ending in 2012/13. Members approved the bids for 2009/10 and approved, in principle, the bids for the forthcoming three years, subject to the availability of resources.

5. Key Issues

- 5.1 This section of the report outlines the major issues which have an impact upon the Housing Revenue budget Account setting process for 2010/11.
- 5.2 Based on the data included in the Draft Housing Revenue Account Subsidy Determination for 2010/11 the actual average rent increase for 2010/11 will be 2.6%. The average rent on a 52 week basis will be £63.38, or £68.66 on a 48 week basis. This compares to the actual average for 2009/10 on a 52 week basis of £61.79 and £66.94 on a 48 week basis.

Housing Subsidy

- 5.3 The amount of Housing Revenue Account Subsidy payable by the Authority is now calculated as follows:-

allowance for management and maintenance
+
allowance for major repairs (MRA)
+
charges for capital
+
other items of reckonable expenditure
-
a notional amount for rent
-
interest on receipts.

- 5.4 The constituent parts of this are as follows:-

- a) The management and maintenance figure is calculated by using the Department for Communities and Local Government (DCLG) target allowance multiplied by the number of houses as at the 1st of April 2009
- b) The major repairs allowance is an amount, notified by the DCLG, per property type multiplied by the number of each property type as at the 1st of April 2009
- c) The amount of charges for capital are based on subsidy capital financing requirement, assumed debt management expenses, an allowance for premiums and discounts and the authority's consolidated rate of interest.
- d) Other reckonable expenditure is again a notified figure from the DCLG based on expenditure on leasehold properties.
- e) The amount of notional rent income is calculated by using the notional target rent income figure notified by the DCLG multiplied by the number of properties as at the 1st of April 2009.
- f) The interest on receipts is again a notified notional figure based on an estimate of the Council's mortgage interest and the interest from Housing Revenue Account balances.

- 5.5 To exemplify the above the actual subsidy figures are given below:-

Draft Subsidy Calculation

	2010/11 Initial £
(i) Management and Maintenance	9,190,775
(ii) Other reckonable expenditure	84
(iii) Major Repairs Allowance	3,773,812
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	12,964,671
(iv) Rent Income	(18,884,457)
(v) Interest on Receipts	(150,970)
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	<u>(6,070,756)</u>

Members will note from this that the financial position with regard to Housing Revenue Account subsidy in 2010/11 is that the Council will again be in overall negative subsidy.

Consultation on the Housing Revenue Account Subsidy Determination for 2010/11 runs until the 25th January 2010.

Capital Resources

- 5.6 From the 1st of April 2004 capital receipts from the sale of housing land and dwellings have been subject to pooling, (75% of Right To Buy (RTB) receipts have to be paid to the Government for redistribution). Officers have estimated that in the short term the number of RTB sales for this Council will be around 5 per annum, generating around £85k in usable capital receipts.
- 5.7 The introduction of the Major Repairs Allowance from April 2001 provided the Council with additional capital resources. This will continue for 2010/11. In 2010/11 £3,773,812 will be transferred from the Housing Revenue Account into a Major Repairs Reserve. This Reserve will then be available to fund capital expenditure for Housing Revenue Account purposes and to repay any Prudential Borrowing.

Housing Repairs Account

- 5.8 The budgeted contribution to the Housing Repairs Account as shown at Appendix A is £4,130,150 for 2010/11, including inflationary increases where appropriate.

Right to Buy Scheme - Rent Income

- 5.9 The 10/11 figures at Appendix A allow for the sale of 5 Council homes. The full effect is an anticipated £16,065 loss of rent income.

Provision for Bad and Doubtful Debts

- 5.10 Members will be aware that the provision was increased by £500,000 to £1,100,000 at the 31st of March 2008. Appendix A reflects the need to maintain this provision for 2010/11.

Supporting People

- 5.11 From the 1st of April 2003 the support service elements of the following services were transferred to the General Fund to coincide with the introduction of Supporting People funding :-

St David's House and Queens Cottages (Support Services)
Wardens (Support Services)
Community Alarm for Council tenants.

These services are funded from Supporting People subsidy, Housing Revenue Account subsidy (due to those tenants who currently pay or receive a free service but should pay if a charge were levied) and the charges that continue to be collected from those tenants not in receipt of benefit. Any deficit in funding is met from the Housing Revenue Account. For 2010/11 the cost to the Housing Revenue Account is estimated to be £351,470.

Housing Revenue Account Balances

- 5.12 The Head of Financial, Revenues and Benefits Services has previously advised Members on the minimum level of revenue balances to be maintained in lieu of unforeseen events affecting the Housing Revenue Account and the Council's housing stock. Members have previously approved the retention of a minimum balance of £600,000
- 5.13 The figures shown in Appendix A indicate that the balance carried forward at the 1st of April 2010 will be £698,278, which will leave a working balance of £697,808.

Job Evaluation

- 5.14 The outcome of the Job Evaluation exercise is due to be implemented from 1st April 2010. There is a potential for this to impact on the Housing Revenue Account. It is therefore recommended that a provision is set aside for this purpose. The estimate cost to the Housing Revenue Account is £190,000.

Revenue Bids 2010/11 – 2012/13

- 5.15 Appendix B details 3 bids for HRA revenue resources totalling £63,000 for 2010/11, £49,000 for 2011/12 and £187,000 for 2011/12. These have also been categorised into unavoidable and high.

	2010/11 £'000	2011/12 £'000	2012/13 £'000
Unavoidable	63.0	49.0	62.0
High	0.0	0.0	125.0
Total Budget Pressures	63.0	49.0	187.0

Capital Bids 2010/11 – 2012/13

- 5.17 Appendix C details 6 bids for HRA capital resources, including the 2012/13 proposed Decent Homes Programme. These have been categorised as unavoidable and high.

	2010/11 £'000	2011/12 £'000	2012/13 £'000
Unavoidable	230.0	110.0	6,020.0
High	220.0	400.0	0.0
* Roof replacement programme	150.0	220.0	
Total Budget Pressures	600.0	730.0	**6,020.0

* omitted from report considered by the Executive Committee on 18th November 2009.

** £3.7m assumed to be funded from Major Repairs Reserve.

- 5.18 The above bids will need to be funded from borrowing. The estimated cost to the HRA is as follows:

	2010/11 £'000	2011/12 £'000	2012/13 £'000
Unavoidable	5.2	12.8	67.5
High	8.3	30.6	44.5
Total Budget Pressures	13.5	43.4	112.0

Overview and Scrutiny Committee Recommendation

- 5.19 The Council Flat Communal Cleaning Task and Finish Group reported to the Executive Committee on the 22nd July 2009. The Group recommended that a revenue bid be submitted to enable the flooring in the Three Storey Flats in Batchley to be stripped, cleaned and sealed. The cost of this work is £6,000.

Summary

- 5.20 The combined impact of the revenue and capital bids on the Housing Revenue Accounts are as follows:

	2010/11 £'000	2011/12 £'000	2012/13 £'000
Estimated level of balances 31st March 2011	698.3		
Unavoidable and high revenue bids	63.0	49.0	187.0
Unavoidable and high capital bids *	13.5	43.4	132.0
O & S bid	6.0		
Total budget pressures	82.5	92.4	319.0
Reduced level of balances if all bids are approved	615.8		

* including ongoing maintenance.

- 5.21 If Members were to approve all the proposed bids then the estimated level of Housing Revenue Account balances at as the 31st March 2011 would still be within the recommended minimum level of £600k.
- 5.22 The position of the Housing Revenue Account for the period commencing 1st April 2011 will be dependant upon the outcome of the 'Self Financing' offer expected in February.

6. **Other Implications**

Asset Management	-	The Housing Revenue Account provides for the maintenance of the Council's housing stock.
Community Safety		The Housing Revenue Account provides funding for community safety issues concerning the Council's housing tenants.
Health	-	None identified.
Human Resources	-	None identified.
Social Exclusion		The provision of social housing assists with addressing some issues associated with social exclusion.
Environment / Sustainability	-	The capital bids include items concerned with environmental/sustainability issues.

7. **Lessons Learnt**

None.

8. **Background Papers**

Relevant papers on Financial Services files.

9. **Consultation**

9.1 Only relevant Borough Council Officers have been consulted in the preparation of this report.

9.2 The Borough Tenants' Panel has not been consulted at this stage.

10. **Author of Report**

The author of this report is Teresa Kristunas (Head of Financial, Revenues and Benefits Services), who can be contacted on extension 3295 (e-mail teresa.kristunas@redditchbc.gov.uk) for more information.

11. Appendices

Appendix A. Housing Revenue Account – 2010/11 Initial Estimate

Appendix B Revenue Bids 2010/11 – 2012/13

Appendix C Capital Bids 2010/11 – 2012/13