



AGENDA ITEM: 13

**CABINET:
20 JANUARY 2009**

**EXECUTIVE OVERVIEW AND
SCRUTINY COMMITTEE:
5 FEBRUARY 2009**

Report of: Executive Manager Housing & Property Maintenance Services

Relevant Portfolio Holder: Councillor Mrs V Hopley

**Contact for further information: Darroll D McCulloch (Extn. 5203)
(e-mail: Darroll.McCulloch@westlancsdc.gov.uk)**

**SUBJECT: DRAFT HOUSING REVENUE ACCOUNT (HRA) ESTIMATES
FOR 2009 -2010**

DMcC/ BC/2.872cabeosc
9 January 2009

District wide interest

1.0 PURPOSE OF THE REPORT

1.1 This Report is intended to:

- Advise Members of the Rent Increase for 2009-2010 as provided under the Government's Rent Reform formulae
- Advise Members of the Service charges to be applied in respect of Sheltered Accommodation as allowed under the Government's Rent and Service charge formulae; and
- Present the Draft Housing Revenue Account Estimates for 2009-2010 for consideration and approval by Members

2.0 RECOMMENDATIONS

2.1 RECOMMENDATIONS TO CABINET

- 2.1.1 That the Rent and Service Charge increases, set within delegated authority, be noted and endorsed.
- 2.1.2 That the Portfolio Holder for Housing be authorised to advise Council of the preferred options to balance the Housing Revenue Account, including the priority of investment of the Major Repair Allowance (MRA).

2.1.3 That the Draft Housing Revenue Account Estimates for 2009/10, as set in Appendix B to the report, be referred to Council for consideration, subject to resolution 2.2 above and that in this respect the Portfolio Holder for Housing be authorised to submit proposals to the Council on 25 February 2009 to enable the budget to be set.

2.1.4 That Call In is not appropriate for this item as this report will be submitted to the Executive Overview and Scrutiny Committee on 5 February, whose comments, if any, will be considered by Council on 25 February 2009.

2.2 RECOMMENDATION TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE

2.2.1 That agreed comments on the Draft HRA Estimates 2009-2010 be made and submitted to the Housing Portfolio Holder in advance of the Council meeting to be held on 25 February 2009.

3.0 BACKGROUND

3.1 Section 76(2) of the Local Government and Housing Act 1989, sets out the main duty placed on the Council in relation to the keeping of the HRA and provides that the Council must, each January or February, formulate proposals in respect of the HRA income and expenditure for the forthcoming financial year, to satisfy the requirements of Section 76(3). Namely, that on the best assumptions and estimates that the Council is able to make at the time, the implementation of proposals will secure the HRA for that year does not show a debit balance.

3.2 Under S74 of the Local Government and Housing Act 1989, the Council, as a Local Housing Authority, is required to keep a Housing Revenue Account (HRA) in accordance with proper practices. The Council has the responsibility to determine a strategy, which is designed to ensure that the HRA is in balance by the end of 2009-2010. In doing so, Council should take into account the following issues:

- Government policies and initiatives;
- The Housing Revenue Account Subsidy Determination 2009-2010;
- The need to determine rent levels for 2009-2010 having regard to the Government's policy regarding Rent Reform (Rent Restructuring);
- The need to adhere to sound accounting practices.

3.3 Since 1st April 1990, under the provisions of the Local Government and Housing Act 1989, the Housing Revenue Account has been ring fenced. This means that it must, in general, now balance on a year-by-year basis, so that the costs of running the Housing Service, in terms of debt charges and management and maintenance expenditure, must be met from income for the account in any given year. The main sources of income are rents and Government subsidy. The latter is computed from the notional HRA, comprising the Government's view of expenditure that the Authority should incur, and the level of rents that should be set. The HRA is therefore reliant on the Government's subsidy rules. These

rules require authorities to achieve target rents as determined by the Government's policy on social rent reform over the next six years.

- 3.4 Under the Local Government Act 2003 Housing rent rebates are no longer accounted for within the HRA and have been transferred to the General Fund.
- 3.5 The Executive Manager Housing and Property Maintenance Services is therefore bringing to Cabinet, an estimate of the HRA income and expenditure for 2009-2010. In parallel with this a consultation exercise will be carried out with Tenants Representative Groups to seek any comments in relation to this process. Any comments will be reported to the Portfolio and Shadow Portfolio Holder for Housing as these will not be received until after the Cabinet meeting on 20 January 2009.
- 3.6 Members may wish to consider and debate the proposed budget at the Executive Overview and Scrutiny Committee.
- 3.7 Following consideration of the estimates by Executive Overview and Scrutiny Committee, their comments will be considered by a meeting of Council on the 25 February 2009. These meetings will also have any details of any latest financial information available.
- 3.8 The Council meeting will provide an opportunity for each Political Group to put forward proposals that combine both expenditure and the means of funding it.
- 3.9 The Tenants & Residents Forum have been invited to make recommendations on additional programmes of work to which HRA resources should be made available

4.0 GENERAL BUDGET PRINCIPLES

- 4.1 The estimates have been presented within the main headings adopted by local authorities in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and conforms with Section 25 of the Local Government Act 2003.
- 4.2 The draft estimates for 2009-2010 at Appendix B – include pay award increases, national insurance and incremental growth where appropriate. It should however, be noted that figures are based on currently available information and will be subject to change as those figures are firmed up over the coming weeks.

5.0 KEY DETERMINANTS FOR THE BUDGET

SOCIAL RENT REFORM

- 5.1 The aim of the Government's social rent reform (rent restructuring) is to have all local authorities and registered social landlords (RSL's) charging rents on the same basis to provide transparency for tenants in the social rented sector. Until 2008-09 this was required to be achieved over a ten-year period commencing on 1st April 2002.

- 5.2 Under this reform rents will be based on nationally applied formulae based on 70% relative regional earnings and 30% relative capital values rather than the basis of setting rents commensurate with the cost of delivering the service.
- 5.3 In 2008-09 the Government decided that the period over which rent restructuring would take would be extended by five years. Accordingly, individual property "target rents" for 2008-09 were rebased on achieving actual and target rent convergence by April 2017.
- 5.4 The latest steer from government is that they have decided to extend the period of convergence April 2024.
- 5.5 Given an RPI of 5% in September 2008, delaying the period over which convergence will take place will flatten out rent increases in 2009-10. Under the Governments Rent formulae this will result in an overall average increase in rents of 6.1%. In view of the economic situation Ministers have imposed a cap of 7.0% to rent increases.
- 5.6 Members will recall that the Council, having adopted the Government's Rent Reform policy, delegated authority to the Executive Manager Housing and Property Maintenance Services to determine the rent levels to be charged each year for as long as the Governments rent reform exists and to report this to Members as part of the budget process.
- 5.7 Based on the information supplied by the Department of Communities and Local Government (DCLG) the average rent per dwelling has been calculated in accordance with the Government's Rent Reform Guidance to be £62.92 on the basis of 48 chargeable weeks. This represents an average increase of £3.62 per week on 2008-2009 comparative average rent levels. The average rent for 2008-2009 is estimated to be £59.30 based on a 48 chargeable weeks. Individual Property rents may be higher or lower than the average. The Executive Manager Housing and Property Maintenance Services will exercise his delegated authority and advise tenants of the rent increase based on the guidance issued with the final Housing subsidy Determination.
- 5.8 The Government has indicated that local authorities will be compensated through the Housing Subsidy System for staying within the Ministerial cap of 7.0%. The DCLG do not expect many local authorities to be affected by the Ministerial cap so they will determine from their calculations what, if any compensation, will be made.

5.2 HOUSING SUBSIDY

- 5.2.1 The Draft Housing Subsidy Determination was received on 29 October 2008.
- 5.2.2 This consultation ended on 9 December and the Final Housing Subsidy Determination was published on 18 December. A comparison with the final Housing Subsidy award for 2008-2009 is shown at Appendix A.
- 5.2.3 Whilst the HRA subsidy has been determined on a similar basis to 2008-2009 two of the principal changes are the rebasing of subsidy guideline rent on the new

timetable of April 2024 for target rent convergence and the introduction of a scheme of compensation for those affected by the Ministerial caps and limits on rent increases.

- 5.2.4 Members will recall that Ministers instructed Councils to limit overall actual rent increases to 5% in 2006-07 and 2007-08. The Government announced that they would reimburse those Councils that complied with the Ministerial limit with a payment, in-year, through the HRA subsidy system for the rent that would have otherwise been collected had the Ministerial limits not applied. This reimbursement was commonly referred to as the Rent Constraint Allowance. Although the actual amount to be reimbursed is subject to audit this has had the benefit of reducing the amount payable to the Government.
- 5.2.5 However, unlike previous years the 2009-10 calculation of compensation for staying within the Ministerial cap will be determined by DCLG.
- 5.2.6 At the time of writing this report the audit of the Housing Subsidy and Rent Constraint Allowance for 2007-08 has been completed and I have pleasure in advising Members that the Council will benefit by £400,900.
- 5.2.7 Based on the Final HRA subsidy Determination, the estimated gross impact to the Housing Revenue Account because of subsidy withdrawal is likely to be £749,944 in 2009-2010. The total value of the HRA subsidy payable to the Department of Communities and Local Government has been estimated at £5.352 m for 2009-2010.
- 5.2.8 Members should note that from April 2004 Rent Rebates is accounted for within the GRA. However, penalties will still accrue to the HRA if it is found that rents and service charges are set above Government guideline formula levels.
- 5.2.9 Members will be aware that the Communities and Local Government (CLG) are conducting a fundamental review of the HRA Subsidy system and the way Local Authority Housing is financed. However, it is unlikely that there will be any changes to the existing system until the findings of the next Comprehensive Spending Review are announced in 2011/12.

5.3 **SERVICE CHARGES**

- 5.3.1 The consultation papers issued on the subject of Social Rent Reform and subsequent guidance confirmed that local authorities could generate additional income via the use of service charges, in line with existing practices adopted by Registered Social Landlords.
- 5.3.2 Members will recall that Council delegated authority to the Executive Manager Housing and Property Maintenance Services to determine Service charges in accordance with the Government's Rent and Service charge Reforms for as long as those conditions existed and to advise Members of those charges as part of the budgetary process. It should be noted that those proposals are included within the attached Draft HRA Budget.

5.3.3 The rates of increase for Category 1 and Category 2 Sheltered Accommodation has been determined at an average rate of £18.07 and £23.54 per week respectively. These represent an average increase of £0.54 and £1.37 per week respectively on comparative 2008-2009 rates. However individual charges may be higher or lower than the average.

5.3.4 Members will recall that on 16 September Council approved an increase in District Heating charges of 23.4% from 13 October 2008 and delegated authority to the Executive Manager Housing and Property Maintenance Services, in consultation with the Portfolio holder to determine future District Heating charges. However, due to the fact that the Council's fuel supply contracts are due to be renegotiated in May 2009 it is intended to delay the setting of the District Heating charges until the fuel supply contract prices are known.

5.3.5 In respect of other service charges and Garage Rents, it is proposed that no increase be applied as this may adversely affect our compliance with the Governments limits on rent and service charge increases contained in the Subsidy Determination or will result in lower take up and lower income generation.

5.4 **RIGHT TO BUY**

5.4.1 Levels of Council House Right to Buy sales greatly influence the amount of income the authority might expect to receive from its residents in the form of rent and the amount of Housing Subsidy it receives from DCLG.

5.4.2 The actual number of Right to Buy (RTB) sales per year are detailed in the table 1 below:

Table 1: RTB's

Year	No. RTB's
2004-05	321
2005-06	232
2006-07	130
2007-08	92

5.4.3 At the time of writing this report the number of completed RTB sales in 2008-09 is 26.

5.4.4 It is estimated that RTB sales will be around 40 per year beyond 2008-2009 and this level of RTB has been taken into account in determining the Draft Estimates.

5.4.5 The reduction in RTB sales has the impact of improving rental income to the HRA but reduces available receipts for capital investment.

5.5 **USE OF WORKING BALANCES AND RESERVES**

5.5.1 The Working Balance is a prudent reserve to meet temporary budgetary shortfalls and Reserves are normally designated to meet specific financial needs such as heating charges.

- 5.5.2 The District Auditor has complimented the Council on the current level of its working balances and reserves. The Executive Manager Financial Services has reviewed the potential level of working balances and reserves and considers a level in line with £100 per property is the minimum we should account for.
- 5.5.3 The estimated Working Balance at 31st March 2009 was £781,672. With an average stock of 6300 in 2009-10 a prudent Working Balance of £630,000 will ideally need to be maintained. This means that £151,672 could be used to fund additional programmes in 2009-10.
- 5.5.4 In addition to the Working Balance a £200,000 Reserve was created some years ago at the instruction of Council for the purpose of carrying out Housing Regeneration. This Reserve is currently not identified to a work programme.
- 5.5.5 As previously mentioned Rent Rebate expenditure is no longer accounted for within the HRA. However, should we exceed the Governments rent and service charge guidelines the DWP may claim the excess over guideline from the HRA. As we are fully complying with the Governments Rent and Service charge formula and there has been no claim from DWP it is unlikely that the HRA will be exposed to such risk.
- 5.5.6 Members will be mindful that the use of the Council's Working Balances and Reserves can only be used as "one off" emergency arrangements.

5.6 INTEREST RATES

- 5.6.1 In recent years the HRA has benefited from high levels of interest being received on its Working Balances and the Item 8 Debit and Credit Regulations.
- 5.6.2 In addition, the HRA subsidy system which is based on notional expenditures and incomes provides an allowance for payments of interest against a notional debt , which is based on the Capital Financing Requirement for the HRA.
- 5.6.3 In 2008-09 the amount of interest attributable to working balances and the Item 8 Regulations was budgeted at £731,600, and the amount of interest allowed under the HRA subsidy system for notional debt was estimated at £191,261.
- 5.6.4 However, reductions in interest rates have meant that for 2009-10 the amount of interest attributable to the HRA will be significantly lower.
- 5.6.5 Based on the professional advice available at the time of writing this Report it has been assumed that the interest rate will fall to 1.5% and generate interest for the HRA of around £204,892 in respect of working balances and the Item 8 Regulations.
- 5.6.6 For the purposes of Housing Subsidy the Government use the London Inter Bank Deposit (LIBD) rate to work out what interest should apply. In the final Subsidy settlement they have used 6.23% resulting in a base line interest figure of around £213,852. However, as with all interest rates this will be subject to interest rate fluctuations, the actual amount awarded will not be known with certainty until September 2010. In view of the volatility that exists in interest rates it is

considered equally prudent to reduce the interest rate assumption within HRA Subsidy to 3.0% and to reduce the amount of interest to £102,978.

6.0 COMMENTS OF THE TENANTS AND RESIDENTS FORUM

- 6.1. The views of the Tenants and Residents are currently being sought and will be brought to Members attention as soon as they are available.

7.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

- 7.1 Setting a balanced budget is a fundamental requirement to achieve sustainability and delivery of the Community Strategy.
- 7.2 The steps taken now will have to be continued beyond the forthcoming financial year to ensure the Council satisfies its fiduciary and legal requirement to deliver a balanced budget.

8.0 FINANCIAL AND RESOURCE IMPLICATIONS

- 8.1 Subject to any further identified costs or savings that may be proposed and taking into account the provisions contained in the Final HRA Subsidy Determination the budgetary position for the HRA is that it will be in deficit by £162,835, before any of the budgetary issues under paragraph 9.4 below are considered.

9.0 BUDGETARY ISSUES 2009-10

- 9.1 The constant demand to improve services, achieve efficiency savings continues to place increasing demands on the HRA, 2009-10 is no exception to this.
- 9.2 Unlike 2008-09 when the HRA was shown to be in surplus before budgetary issues were considered, this is not so in 2009-10
- 9.3 Members will also note that the available resources to the Public Sector Capital Investment and Programme Maintenance Programmes reported elsewhere on tonight's Agenda are fully committed to deliver a range of essential works in 2009-10.
- 9.4 The Table below identifies the principal issues for the HRA in 2009-10. that can not otherwise be delivered from the existing resources currently made available to the Capital Investment programme mentioned in paragraph 9.3 above

Table 2 Budgetary Issues for 2009-10

Item	Description	Amount
		£'000
	BUDGETARY ISSUES	
9.4.1	Communal Areas cyclical maintenance / upgrades	100.0
9.4.2	Whitburn Gable Walls – tiled cladding	70.0
9.4.3	Sheltered Accommodation Priority Works	96.0
9.4.4	Cat 2 Communal upgrades	211.0
9.4.5	Accelerated Heating Upgrades	62.0
9.4.6	Accelerated Kitchen & Bathroom replacements	413.0
	Total Budgetary Requirement	952.0

10.0 ESTIMATED RESOURCES AVAILABLE TO THE HRA IN 2009-10

Table 3 Estimated Resources available to the HRA in 2009-10

Item	Description	Amount
		£'000
	OUTLINE HRA RESOURCE AVAILABILITY	
10.1	Estimated Available Working Balance (see paragraph 5.5.3 above)	151.6
10.2	Useable Reserves (see paragraph 5.5.4 above)	200.0
10.3	Estimated Additional Housing Revenue Account Subsidy Rent Constraint Allowance following audit of HRA Subsidy Claim for 2007-08	400.9
	Resources	752.5
10.4	Estimated Deficit 2009-10 (see Appendix B)	162.9
	Total Available Resources	589.6

11.0 BUDGETARY GAP

11.1 If Members approve the allocation of available resources identified in paragraph 10.0 above to the budgetary Issues listed in paragraph 9.0 above, there is a Budgetary Gap of £362,400 to be addressed.

12.0 OPTIONS PROPOSED TO BRIDGE THE BUDGETARY GAP

12.1 Members will need to determine their preference for balancing the Housing Revenue Account.

12.2 This report should be read in conjunction with the Public Sector Housing Capital Investment Schemes and Programmed Works Projects 2009-10.

12.3 I will be working with both Political Groups to look at the options for delivering a balanced Housing Revenue Account. However, to accommodate the budgetary issues highlighted in 9.4 Members will need to explore making efficiency savings and/or realigning the Capital Programme to tackle the budgetary issues.

12.4 Additionally, there may be Political priorities that Members would wish to see addressed which will add to the difficulties in determining a balanced Housing Revenue Account.

13.0 RISK ASSESSMENT

13.1 Statutorily the Council is obliged to set a balanced budget based on the best estimates available at the time in January or February each year.

13.2 Members may determine to increase the level of expenditure. However, if this can only be funded from a reduced working balance or decreases in specific reserves then this may not be looked upon favourably by the District Auditor, Government Office for the Regions or DCLG if it is unsuitable.

13.3 The continuing pressures being faced by the HRA due to increased demand for services, volatility in interest rates, and increased Subsidy withdrawal means that steps will continue to have to be made now and in the future to ensure our ability to meet the fiduciary and legal responsibility of the council to set a balanced budget.

Background Documents

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

Date

Document

29 October 2008

CLG Housing Revenue Account Subsidy
Determination 2009-10

Equality Impact Assessment

There is no evidence from an initial assessment of an adverse impact on equality in relation to the equality target groups.

Appendices

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|------------|---|
| Appendix A | HRA Subsidy Determination – 2009-2010 Final Determination compared with 2008-2009 Draft Determination |
| Appendix B | Revenue Estimates 2009-2010 Housing Revenue Account |