



AGENDA ITEM: 11

**CABINET
19 JANUARY 2010**

**EXECUTIVE OVERVIEW AND
SCRUTINY COMMITTEE
4 FEBRUARY 2010**

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@westlancs.gov.uk)**

**SUBJECT: DRAFT HOUSING REVENUE ACCOUNT (HRA) ESTIMATES
FOR 2010-2011**

DMcC/ BC/EH2911cabeosc
8 January 2010

Borough wide interest

1.0 PURPOSE OF THE REPORT

1.1 This Report is intended to:

- Advise Members of the Rent Increase for 2010-2011 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 2010-2011 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 Executive Manager Housing and Property Maintenance Services present this Report to Executive Overview and Scrutiny Committee, and the

Tenants and Residents Forum and that any comments be incorporated in the report for consideration by Council on 24 February 2010.

- 2.1.3 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 for the Major Repair Allowance (MRA).
- 2.1.4 That the Draft Housing Revenue Account Estimates for 2010-2011, as set in Appendix B to the report, be referred to Council for consideration, subject to resolution 2.1.1 2.1.2 and 2.1.3 above and that in this respect the Portfolio Holder for Housing be authorised to submit proposals to the Council on 24 February 2010 to enable the budget to be set.
- 2.1.5 That call in is not appropriate for this item as the report is to be submitted to Executive Overview and Scrutiny committee on 4 February 2010

2.2 RECOMMENDATION TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE

- 2.2.1 That Executive Overview and Scrutiny Committee consider on the Draft HRA Estimates 2010-2011 and any agreed comments be incorporated in the report for consideration by Council on 24 February 2010.
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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 2010-2011. In doing so, Council should take into account the following issues:
 - Government policies and initiatives;
 - The Draft Housing Revenue Account Subsidy Determination 2010-2011;
 - The need to determine rent levels for 2010-2011 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 Service Charges less Government subsidy withdrawal. 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 The Executive Manager Housing and Property Maintenance Services is therefore bringing to Members, an estimate of the HRA income and expenditure for 2010-2011. In parallel with this a consultation exercise will be carried out with Tenants Representative Groups to seek any comments in relation to this process. Due to the lateness of the Government's announcement regarding rent restructuring for 2010-2011 in December 2009 and the delay in consulting on the Housing Revenue Account Subsidy any comments will be reported to the Portfolio and Shadow Portfolio Holder for Housing.
- 3.5 Members may wish to consider and debate the proposed budget at the Executive Overview and Scrutiny Committee.
- 3.6 Following consideration of the estimates by Executive Overview and Scrutiny Committee, their agreed comments will be considered by a meeting of Council on the 24 February 2010. These meetings will also have any details of any latest financial information available.
- 3.7 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.
- 3.8 The Tenants & Residents Forum have been invited to make recommendations on additional programmes of work to which HRA resources could 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 conform to Section 25 of the Local Government Act 2003.
- 4.2 The draft estimates for 2010-2011 at Appendix B – include the recently agreed Job Evaluation and Harmonisation proposals, likely pay awards and incremental payroll growth, and implementation of the approved downsizing proposals. 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

5.1 SOCIAL RENT REFORM

- 5.1.1 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. In 2008-09 the period over which convergence would take place was extended to April 2017.
- 5.1.2 In 2009-10 the Government decided that the period over which rent restructuring would take would be extended by seven years to April 2024. Accordingly, individual property "target rents" for 2009-10 were rebased on achieving actual and target rent convergence by April 2024.
- 5.1.3 Members will recall that in 2009-10 the Government issued an initial guideline rent increase of 6.2% based on a RPI of 5% in September 2008 which was approved by Council in February 2009.
- 5.1.4 However, due to an unprecedented reduction in RPI the Government issued a scheme to reduce the guideline rent to 3.1% in return for a reduction in HRA subsidy payment. Following the receipt of assurances from Department of Communities and Local Government regarding the Scheme the reduction was implemented in October 2009 and effective from April 2009.
- 5.1.5 The Government announced at the time of the 2009-10 subsidy Determination that they wanted to keep rent increases down to 6.1% in 2010-11. However, given the events in 5.1.4 above Government indicated they would be reviewing the level of increase for 2010-11, the key components of which are RPI and the period over which rents will converge with the government's formula rent.
- 5.1.6 On 10 December, the Council received notification that the Government were recommending a guideline rent increase for 2010/11 of 3.1%, the same percentage increase applied in 2009/10 under the Government's HRA Subsidy Amending Determination.
- 5.1.7 The Government's calculations have been based on an RPI of -1.4% plus real growth of 0.5% and rent convergence being brought forward to April 2014. By Government calculations this will result in an overall rent increase in 2010/11 of 3.1%. At the same time that local authority rents are increasing by a minimum of 3.1%, Housing Association rents are estimated to decrease by 2%.
- 5.1.8 Based on the information supplied by the Department of Communities and Local Government (DCLG) the overall average rent per dwelling has been calculated in accordance with the Government's Rent Reform Guidance to be £63.04 on the basis of 48 chargeable weeks. This represents an overall average increase of

£1.89 per week on 2009/10 comparative overall average rent levels. The overall average rent level for 2009/10 is estimated to be £61.04 based on 48 chargeable weeks. Individual property rents may be higher or lower than the average.

5.1.9 However, unlike previous years there are no Ministerial limits being placed on rent levels it is for Local authorities to determine what rent level they may wish to set. Members may wish to take advantage of this and set a higher rent but it is not the Recommendation of the Executive Manager Housing Property Maintenance Services that we do so.

5.1.10 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 unless Members pass a resolution to increase the rents higher than this.

5.2 HOUSING SUBSIDY

5.2.1 The Draft Housing Subsidy Determination for 2010-11 was received on 10 December 2009

5.2.2 The consultation is not due to close until 25 January 2010.

5.2.3 Not surprisingly the increase in Management and Maintenance and Major Repairs Allowances being proposed as part of the proposed HRA Finance Reforms are not reflected in the 2010-2011 HRA Draft subsidy settlement.

5.2.4 A comparison of the outputs from the 2010/11 Draft HRA subsidy determination with the 2009/10 HRA Subsidy amending determination are attached at appendix A.

5.2.5 Based on the Draft HRA subsidy Determination, the estimated gross additional cost to the HRA Revenue Account is likely to be around £451,906 in 2010/11. The amount payable to the DCLG has been estimated at around £5.276m in 2010/11

5.2.6 However, Members will recall that the Government introduced a Scheme to bring forward Major Repairs Allowance from 2010-2011 and that we successfully bid for £1.007m under this Scheme. Members will be pleased to learn that our tenants are now receiving the benefits of accelerating the Capital works programme from 2010-2011.

5.2.7 Our enquiries with DCLG suggest that there is no proposal for a further Scheme of rolling forward future MRA funding.

5.2.8 This will have the impact of increasing the subsidy payment to DCLG and it is estimated that the total amount payable to DCLG in 2010/11 will be around £6.283m.

- 5.2.9 These figures may be subject to change following the publication of the final HRA subsidy Determination in 2010 and any changes will be brought to the attention of the relevant Portfolio Holders prior to submission of the final report to Council..

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.
- 5.3.3 Under the Government's rent and Service charge reforms the assumed inflation rate for 2010/11 is -0.9% (RPI of -1.4% plus real growth 0.5%).
- 5.3.4 In exercise of his delegated authority, the Executive Manager Housing and Property Maintenance Services proposes to freeze the service charges at the same level as 2009/10 and therefore no increase will apply in 2010/11.
- 5.3.5 Members will recall that the renewal of gas supply contracts enabled the District Heating charges to be reduced to tenants on the District Heating Service to be reduced by 16%. This contract runs for a period of one year and it is understood that the supplier has decided to exit the market. Members will recall that authority was delegated 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 to be delivered by a new gas supplier it is intended to delay the setting of the District Heating charges until the fuel supply contract prices are known later next year.
- 5.3.6 In respect of other service charges and Garage Rents, it is proposed that no increase be applied at this time as this may adversely affect our compliance with the Government's 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 pays to CLG.

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	91
2008-09	27

5.4.3 At the time of writing this report the number of completed RTB sales in 2009-10 is 6.

5.4.4 It is estimated that RTB sales will be around 10 per year beyond 2009-10 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 maintaining rental income to the HRA but reduces available receipts for capital investment.

5.5 PROPERTIES AVAILABLE FOR GENERAL NEEDS LETS

5.5.1 At the time of writing the Council has 49 properties on short term lease to organisations at reduced levels of rent so that they may provide supported accommodation to vulnerable groups within the Borough.

5.5.2 Due to economic pressures 15 properties are shortly due to be returned to the Council

5.5.3 In addition two additional properties to provide Homeless accommodation have been made available

5.5.4 The additional revenue this will provide has been included within the Draft HRA Estimates

5.6 USE OF WORKING BALANCES AND RESERVES

5.6.1 The Working Balance is a prudent reserve to meet temporary budgetary shortfalls and Reserves are normally designated to meet specific financial needs which arise but are not budgeted for.

- 5.6.2 The District Auditor has complimented the Council on the current level of its working balances and reserves. Previously it has been considered appropriate to maintain a minimum working balance in line with £100 per property but this is currently being reviewed as part of this budget process.
- 5.6.3 The estimated Working Balance at 31st March 2010 is £921,308. With an average stock of 6327 in 2010-11 a prudent Working Balance of £632,700 will ideally need to be maintained. This means that £288,608 could be used to fund additional programmes in 2010-2011.
- 5.6.4 Rent Rebate expenditure is no longer accounted for within the HRA. However, should we exceed the Government's rent and service charge guidelines the DWP may claim the excess over guideline from the HRA. As we are fully complying with the Government's 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.
- 5.6.5 Members will be mindful that the use of the Council's Working Balances and Reserves can only be used as "one off" emergency arrangements.

5.7 INTEREST RATES

- 5.7.1 During the course of 2009-2010 interest rates have continued to remain at a very low level. This has the impact to reduce the amount of interest credited to the HRA from working balances and Item 8 Regulations regarding investment income.
- 5.7.2 In 2010-2011 the amount of interest attributable to working balances and the Item 8 Regulations has been budgeted at £128,100.
- 5.7.3 The latest estimates will be made available to Members at the earliest opportunity.

6.0 GOVERNMENT HRA REFORM

- 6.1. Members will recall that the Government has recently completed a consultation exercise in respect of reforming the HRA finance system.
- 6.2 Whilst this will not affect the 2010/11 budget, Members should be aware that the Government's planned announcement in February 2010 may have very significant implications for the Council in future years, particularly if we accept a voluntary settlement to exit the current HRA subsidy system.
- 6.3 The Government's proposals will be separately reported to Members when the details of the Government's proposals have been fully considered.

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 allowing for the realignment of budgets to expected levels of expenditure the HRA is expected to generate a surplus of around £174,842 in 2010-2011 , before any of the budgetary issues under paragraph 9.4 below are considered.

9.0 BUDGETARY ISSUES 2010-2011

9.1 The constant demand to improve services and to achieve efficiency savings continues to place increasing demands on the HRA, 2010-2011 will be no exception to this.

9.2 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 2010-2011.

9.3 The Table below identifies the principal issues for the HRA in 2010-2011. that can not otherwise be delivered from the existing resources currently made available to the Capital Investment programme mentioned in paragraph 9.2 above

Table 2 Budgetary Issues for 2010-2011

Item	Description	Amount £'000
	BUDGETARY ISSUES	
9.3.1	Pre-painting Work	141.0
9.3.2	Central Heating Servicing	223.0
9.3.3	Disabled Adaptations	419.0
9.3.4	Communal Areas	275.0
9.3.5	Elderly & Disabled Services	25.0
9.3.6	Furnished Accommodation	20.0
9.3.7	Day-to-Day Response Repairs	177.0
9.3.8	Strengthening of Tenant Participation Activity	40.0
9.3.9	Review staffing Levels	35.0
	Total Budgetary Requirement	1,355.0

10.0 ESTIMATED RESOURCES AVAILABLE TO THE HRA IN 2010-11

10.1 Based on the currently available information, the available resources to the HRA are:

Table 3 Estimated Resources available to the HRA in 2010-11

Item	Description	Amount
		£'000
	OUTLINE HRA RESOURCE AVAILABILITY	
10.1.1	Estimated HRA surplus 2010-2011	174.8
10.1.2	Potential Available working Balance (see note 5.6)	288.6
	Total Available Resources	463.4

10.2 The above figures are subject to change. The latest information available will be brought to Members attention when new information such as the rent and Subsidy settlement become known.

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 £891,600 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 2010-11.

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 9.3 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, very low 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.

<u>Date</u>	<u>Document</u>
December 2009	Draft HRA Subsidy Determination 2010/11

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

Appendix A	HRA Subsidy Determination – 2010-11 Draft Determination compared with 2009-10 HRA Subsidy Amending Détermination
Appendix B	Revenue Estimates 2010-11 Housing Revenue Account