

Meeting:	Tenants' and Leaseholders' Consultative Forum
Date:	9 January 2008
Subject:	Draft Housing Revenue Account (HRA) Budget 2008-09 and Medium Term Financial Strategy 2008-09 to 2010-11
Key Decision: (Executive-side only)	No
Responsible Officer:	Myfanwy Barrett Corporate Finance Director
Portfolio Holder:	Camilla Bath Portfolio Holder for Housing
Exempt:	No
Enclosures:	Appendix 1 – HRA 3yr Budget Summary

Section 1 – Summary and Recommendations

This report sets out the draft Housing Revenue Account (HRA) Medium term financial strategy for 2008-09 to 2010-11.

Recommendations:

To agree the draft Housing Revenue Account (HRA) for 2008-09 to 2010-11, and recommend the 3yr financial strategy to Cabinet.

Reason: (For recommendation)

The TLCF considers and makes annual recommendation to Cabinet with respect to the Housing Revenue Account (HRA).

Section 2 – Report

MEDIUM TERM BUDGET STRATEGY FOR 2008-09 TO 2010-11

Introduction

1. The Council's 30year HRA business plan was update and submitted to GOL in July. The plan sets out how the Council intends to manage and maintain its housing stock over the next 30 years. This financial strategy set out below relies on the business plan assumptions, which have been updated where relevant to reflect changing operational needs and priorities.
2. The medium term financial strategy reflects the costs of delivering services at current levels and takes account of areas of identified pressures and savings. It builds on the HRA forecast outturn position at quarter 2 and is subject to changes that may be required to reflect government policy and housing priorities. The key areas of updated assumptions that underpin the strategy and the 3year revenue budget summary are set out below. The draft budget report was put to Cabinet on 13th December 2007.

Balances

3. The strategy will deliver in year deficit of £738k in 2008-09, £847k in 2009-10, and £877k in 2010-11. The accumulated balances are estimated to reduce from £6m in 2007-08 to £3.6m at the end of 2010-11. In line with the business plan, the HRA aims to maintain a minimum balance of £750k increasing with inflation each year.

Income

Dwelling Rent

4. The Government intends that by 2012 similar properties in the same area will have similar rents even if owned by different social landlords. The aim is to deliver fairer rents, greater transparency and choice for tenants. This is generally referred to as rent convergence. However, it also means properties with low rents will have to increase progressively each year to achieve similar rents in 2012.
5. In line with Government policy, an average rent increase of 5.66% is recommended in 2008-09 (5.13% in 2007-08). This means an average rent charge of £81.59 per week per tenant (£77.22 in 2007-08) representing an average rent increase of £4.37 (£3.77 in 2007-08).
6. The strategy assumes a stock level of 5,074 at the start of April 2008 reducing marginally by an estimated five Right to Buy sales each year and thereafter. A 1.5% void level is assumed. These are reflected in the estimated rental incomes.

Service Charge – Tenant and Leaseholders

7. In line with Government guidance, the Council separated service charge from dwelling rent in April 2007. The costs of delivering estate based communal services are recovered directly from tenants through the service charge. The estimated total cost of depooled services in the current year is £1.24m. (2006-07 in £1.19m).

8. Service charge for tenants is recommended to increase by 3.50% in 2008-09 (£3.6% in 2007-08) resulting in an average service charge of £4.13 per week per tenant (£3.99 in 2007-08) representing an average rent increase of £0.14 (£0.14 in 2007-08).
9. As with tenants, service charge for leaseholders is recommended to also increase by 3.5% in 2008-09. Recovery of costs for administering the leasehold team is recommended to remain at 20% of the service charge costs. Recovery of the costs of repairs to leasehold block remains estimated at £85 per leaseholder. Building insurance is to be recovered at £142 per year per leaseholder. It is estimated there will be 1077 leaseholders as at March 2007-08.
10. Other rent income from garages, car park, and commercial shops and facilities charges is recommended to increase in line with inflation by 3%.
11. The recommended rent increases will support the delivery of key services to tenants at their present level, to reflect increases to management and borrowing costs to support the delivery of decent homes. The recommended rental increases have been adjusted for voids and right to buy sales where relevant.

HRA subsidy

12. Government has delayed the announcement of the 2008-09 draft determinations due to the late completion of the Comprehensive Spending Review. The final HRA subsidy and Item 8 determinations will not be known until early January 2008. We have assumed uplifts to all the allowances and guideline rent in line with prior years subject to the final determination. Changes arising from the final determination will be reflected in the final put to Cabinet in February 2008.
13. We have also assumed that the policy on Rental Constraint Allowance will not continue beyond 2007-08 and that Government will revert to the old regime of Caps and Limits from 2008-09. It is assumed this will result in a higher negative subsidy payable to government.

Expenditure

14. Five RTB sales are assumed in 2008-09. The marginal reduction in stock levels is reflected in the assumed level of maintenance expenditure. No reduction is assumed for management costs.

Employee Costs

15. The financial strategy is based on estimated outturn and reflects pay increases for staff of 2.5% and pension costs of 0.1% in across the 3 years. It also reflects the proposed changes to the housing structure where confirmed.

Responsive Repairs

16. The strategy assumes contribution to the responsive and cyclical repairs of £4.6m in 2008-09, £4.7m in 2009-10 and £4.7m in 2010-11. This reflects the assumed savings of £500k, phased in over the four years 2008-09 to 2011-12, arising from the new contractual relationship

with Kiers. The costs reflect 3% inflationary increase assumed in the business plan. The strategy assumes a reduction in the unit costs per dwelling from £920 in the current year to £844 by 2010-11.

Energy Costs

17. A 3% increase in energy costs is assumed. These costs are recovered directly from charges to tenants/leaseholders through the service and facilities charges.

Charges for Capital

18. The strategy reflects the HRA share of the Council debt redemption premium across all 3 years. It also reflects discounts due to the HRA from the recent debt restructuring. Interest on the HRA balances is assumed at 4.93%. In calculating the cost of borrowing to support the decent homes programme, detailed in paragraph 19 below, a consolidated rate of interest (CRI) of 5.08% is assumed.

Capital Investment and Prudential Borrowing

19. The strategy assumes capital expenditure of £12.5m in 2008-09, £10.5m in 2009-10 and £5.9m in 2010-11 in line with the business plan. Capital expenditure is funded from Major Reserve Allowances (MRA) and capital receipts with the balance being financed through estimated borrowing of £7m in 2008-09, £5m in 2009-10 and £600k in 2010-11. Supported borrowing is assumed at £2.7m subject to the subsidy determination. It is assumed that £500k of usable capital receipts will be applied in 2008-09 subject to the level of capital expenditure.

Revenue Contribution to Capital Outlay (RCCO)

20. A contribution from the HRA reserves of £1m for each of the 3 yrs is recommended to support housing capital investment on the decent homes programme.

General Contingency

21. The strategy sets aside £200k to cover unforeseen expenditure that may arise in the management and maintenance of the housing stock.

Summary

22. The medium term financial strategy reflects increases to rental income in line with and/or above inflation to cover assumed increases in management and maintenance expenditure. The draft budget anticipates in year HRA deficit across the three years of the plan resulting in a reduction of balances by £3m. The business plan assumed a net call on the balances of £1.5m across the three years.
23. The recommended HRA strategy is broadly consistent with the 30year business and reflects current operational needs and priorities. It is expected that the strategy will support the continuing improvement to current and service levels in order to meet expectations of tenants and comply with Government requirements.

Section 3 - Statutory Officer Clearance

Name: ...Donna Edwards



on behalf of the
Chief Financial Officer

Date: 5 December 2007

Name: ...Helen White



on behalf of the
Monitoring Officer

Date: ...17 December 2007

Section 4 - Contact Details and Background Papers

Contact: Carol Maduka
Senior Professional – Housing Finance
020 8424 1672

Background Papers:

- 30 yr HRA Business Plan
- Report to Cabinet in December on the MTFS

HOUSING REVENUE ACCOUNT (HRA) - 3 YEAR BUDGET SUMMARY - 2008-09 to 2010-11 (DRAFT)

	Revised Budget 2008-09 (Nov 07)	Revised Budget 2009-10 (Nov 07)	Original Budget 2010-11 (Nov 07)	Assumptions
Expenditure				2008-09
Employee Costs	2,982,840	3,027,582	3,072,996	2.5% pay increase
Supplies & Services	1,876,726	1,886,726	1,896,726	3% increase in energy costs
Central Recharges	1,412,168	1,412,168	1,412,168	Subject to corporate review of SSC charges
Employee Costs - Needs / Strategy	400,000	400,000	400,000	Contribution to Housing GF cash limited
Recharge to other services	-502,530	-502,528	-502,528	Subject to 3yr funding settlement in Dec
Home Ownership service	291,100	295,466	299,898	Assume 5 RTB sales
Baseline expenditure	6,460,303	6,519,414	6,579,260	
Contingency	200,000	200,000	200,000	Repairs and other unplanned costs
Operating Expenditure	6,660,303	6,719,414	6,779,260	
Charges for Capital	5,883,565	6,208,775	6,451,574	Discounts and premiums reflected. CRI @ 5.08%
Contribution to Repairs Account	4,617,000	4,661,000	4,705,000	Reflects 3% inflationary increase
Bad or Doubtful Debts	100,000	100,000	100,000	
Total Expenditure	17,260,868	17,689,189	18,035,834	
Income				
Rent Income – Dwellings	-21,170,697	-22,352,022	-23,579,148	Average 5.66% Rent increase in 08-09 in line with rent model/business plan
Rent Income – Non Dwellings	-990,810	-1,013,599	-1,036,911	Average increase of 3% on garages & Car parks and 3% on some commercial shops
Service Charges - Tenants	-1,071,638	-1,109,145	-1,147,965	Average increase 3.5% in 08-09 in line with rent model/business plan
Service Charges - Leaseholders	-299,446	-309,927	-320,774	3.5% increase in line with charges to tenants
Facility Charges	-347,425	-357,848	-368,583	Average increase of 3%
Interest	-19,000	-19,000	-19,000	
Other Income	-8,010	-8,010	-8,010	
Transfer from General Fund	-83,000	-83,000	-83,000	
HRA Subsidy	6,466,927	7,410,641	8,404,898	Estimated subject to HRA draft determination and Rent Restructuring consultation paper. CRI @ 5.08%
Total Income	-17,523,099	-17,841,909	-18,158,494	
Net Operating Expenditure	-262,231	-152,720	-122,661	
Revenue Contribution to Capital	1,000,000	1,000,000	1,000,000	Contribution spread evenly across the 3yrs
In Year Deficit / (Surplus)	737,769	847,280	877,339	
BALANCE	-5,340,641	-4,493,361	-3,616,022	