

Meeting:	Tenants' and Leaseholders' Consultative Forum
Date:	6 January 2009
Subject:	Draft Housing Revenue Account (HRA) Budget 2009-10 and Medium Term Financial Strategy 2009-10 to 2011-12
Key Decision: (Executive-side only)	No
Responsible Officer:	Corporate Director of Finance Myfanwy Barrett
Portfolio Holder:	Councillor Barry Macleod-Cullinane Portfolio Holder for Adults & Housing
Exempt:	No
Enclosures:	Appendix 1 – Draft HRA Budget 2009-10 to 2011-12

SECTION 1 – SUMMARY AND RECOMMENDATIONS

This report sets out the draft Housing Revenue Account (HRA) Budget for 2009-10 and the Medium Term Financial Strategy 2009-10 to 2011-12 as reported to Cabinet on 18th December 2008.

RECOMMENDATIONS:

To agree the draft Housing Revenue Account for 2009-10 to 2011-12 and recommend the 3year financial strategy to Cabinet.

REASON:

The TLCF considers and makes annual recommendations to Cabinet with respect to the Housing Revenue Account [HRA].

SECTION 2 – REPORT

Draft Medium Term Financial Strategy (MTFS) 2009-10 to 2011-12

1. The Council's 30 year HRA business plan was updated and submitted to the Government Office for London (GOL) in July 2006. The plan sets out how the Council intends to manage and maintain its housing stock over the next 30 years. This financial strategy, as 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 3 year revenue budget summary are set out below.

Balances

3. The strategy will deliver an in year deficit of £1.4m in 2009-10 and £0.8m in 2010-11, and a surplus of £0.1m in 2011-12. The accumulated balances are estimated to reduce from £6.2m at the end of 2007-08 to £3m at the end of 2011-12.
4. In line with the business plan, the HRA aims to maintain a minimum balance of £0.75m.

Income

Dwelling Rent

5. The Government intends that by 2016 similar properties in the same area will have similar rents even if owned by different social landlords. The aim is to deliver fairer rents, and greater transparency and choice for tenants. This is generally referred to as rent convergence.
6. In line with Government policy, an average rent increase of 6.19% is recommended in 2009-10 (5.66% in 2008-09). This means an average rent charge of £86.17 per week per tenant (£81.59 in 2008-09) representing an average rent increase of £4.58 (£4.37 in 2008-09). Details of average rents are shown in Appendix 2. This will achieve rent convergence for 83% of Council dwellings by the target date.

7. The strategy assumes a stock level of 5,065 at the start of April 2009 reducing marginally by an estimated five right to buy sales each year thereafter. Rent loss resulting from voids is estimated at 1.44% of the rental income for dwellings and 0.58% for sheltered accommodation. These assumptions are reflected in the estimated rental incomes detailed in the appendix.

Service Charge – Tenant and Leaseholders

8. 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 £1.9m. (£1.24m in 2007-08).
9. Service charge for tenants is recommended to increase by 5.50% in 2009-10 (3.5% in 2008-09) resulting in an average service charge of £4.39 (£4.13 in 2008-09), representing an average increase of £0.26 (£0.14 in 2008-09) per week per tenant. Details of average service charges are shown in Appendix 2.
10. Service charge for leaseholders is recommended to increase by 10.6% in 2009-10. 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 blocks is estimated at £53 per leaseholder. Building insurance is to be recovered based on an average of £157 per year per leaseholder. It is estimated there will be 1,172 leaseholders as at 31st March 2009.

Other Rental Income

11. Other rent income from garages, car parking, commercial shops and facilities charges is recommended to increase by 2.5% as detailed in Appendices 3, 4 and 5.

Summary

12. 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

13. The draft budget includes uplifts to all the allowances and guideline rents in line with draft HRA Subsidy determination. Rental Constraint Allowance, as previously assumed, has not continued beyond 2007-08, with the Government reverting to the Caps and Limits regime from 2008-09.
14. In March 2008 a review of Council Housing Finance was launched by the Communities and Local Government and HM Treasury Departments. The purpose of the review is to develop a sustainable, long term system for financing council housing, and one which is consistent with wider housing policy, including the establishment of a regulator of social housing. The review is due to report to Ministers mid 2009, setting out options for the subsidy system including proposals for changing to rent policy.
15. A formal consultation will follow the review and at this point it should be possible to advise on the impact of the changes on both the HRA and the Business Plan.

Expenditure

16. Five RTB sales are assumed in 2009-10. The marginal reduction in stock levels is reflected in the assumed level of maintenance expenditure. No reduction is assumed for management costs.

Employee Costs

17. The financial strategy is based on estimated outturn and reflects pay increases for staff of 2.75% each year and pension contribution increases of 0.25% each year. It also reflects the proposed changes to the housing structure where confirmed.

Responsive Repairs

18. The strategy assumes contributions to the responsive and cyclical repairs of £4.8m in each of the next three years. This area is subject to further review, with benchmarking being progressed to achieve comparison for budget setting purposes. Discussions are progressing with Kier on a partnership basis to improve service delivery whilst containing and controlling costs.

Energy Costs

19. 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

20. 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. In calculating the cost of borrowing to support the decent homes programme, detailed in paragraph 21 below, a consolidated rate of interest (CRI) of 5.45% is assumed.
21. Interest on the HRA balances is assumed at an average of 2.1% reflecting the anticipated reduction in interest rates.

Capital Investment and Prudential Borrowing

22. The strategy assumes capital expenditure of £6.9m in 2009-10, £5.9m in 2010-11 and £6.1m in 2011-12 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 £1.9m in 2009-10, £817k in 2010-11 and £1m in 2011-12. This level of borrowing is within the supported borrowing figure of £2.7m included in the subsidy determination.
23. The forecast level of usable capital receipts has reduced from £0.5m to £0.25m. This reduction reflects the lower level of RTB sales.
24. Significant investment has been made in IT services during 2008-09 and will assist in delivering business efficiency during 2009-10. Additional borrowing costs of £195k have been included within capital financing costs, however no provision has been made for ongoing support costs.

Revenue Contribution to Capital Outlay (RCCO)

25. 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

26. The strategy sets aside £200k to cover unforeseen expenditure that may arise in the management and maintenance of the housing stock, with the balance representing the anticipated increases in employee costs as detailed in paragraph 17 above.

Summary

27. The recommended HRA strategy is broadly consistent with the 30 year business plan and reflects current operational needs and priorities. It is expected that the strategy will support the continuing improvement to current service levels in order to meet expectations of tenants and comply with Government requirements.
28. The impact of the current economic climate has been estimated where possible within this three year budget position now being reported. The increase quantified within this budget totals approximately £0.5m and arises from the need to increase the bad debt provision for Council tenants, lower levels of rental income for non-dwelling HRA assets and a reduction in the investment income earned.
29. The draft budget estimates a deficit until 2011-12, when the HRA anticipates a small surplus, resulting in a reduction of balances of £2.5m when compared with the business plan surplus of £5.5m at the end of 2011-12.
30. The impact of the lower level of balances will significantly shorten the period during which the Council has a viable HRA. If income and expenditure assumptions remain in line with the business plan, in year 7 [2013-2014] the balances will fall below the recommended level of £0.75m. By this point, the Council will have considered the options around the future of housing in this respect.

Section 3 - Statutory Officer Clearance

Name: Donna Edwards	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 3 December 2008		
Name: Paresh Mehta	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 19 December 2008		

Section 4 - Contact Details and Background Papers

Contact:

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Adults & Housing Finance Manager
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Background Papers:

- 30year HRA Business Plan
- Report to Cabinet in December on the Medium Term Financial Strategy