Meeting:	Tenants' & Leaseholders' Consultative Forum
Date:	10th November 2009
Subject:	Housing Revenue Account (HRA) Budget and Medium Term Financial Strategy 2010-11 to 2012-13
Responsible Officer:	Corporate Director of Finance Myfanwy Barrett
Portfolio Holder:	Portfolio Holder for Adults & Housing Councillor Barry Macleod-Cullinane
Exempt:	No
Enclosures:	Appendix 1 – 3year HRA agreed by Cabinet July 2009

SECTION 1 – SUMMARY AND RECOMMENDATIONS

This report sets out the budget assumptions and issues to be considered as part of the Housing Revenue Account (HRA) Budget and Medium Term Financial Strategy 2010-11 to 2012-13 to be reported to Cabinet on 17th December 2009.

RECOMMENDATIONS:

To agree the assumptions for the Housing Revenue Account for 2010-11to 2012-13 and make specific recommendations, if necessary, on the 3 year financial strategy to be considered by Cabinet.

REASON:

To consult on key issues and assumptions, resulting in the budget setting for the HRA for 2010-11 and Medium Term Financial Strategy 2010-11 to 2012-13.

SECTION 2 – REPORT

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

The medium term financial strategy, will rely on the business plan assumptions, updated where relevant to reflect changing operational needs and priorities. It will reflect the costs of delivering services at current levels and take account of areas of identified pressures and savings, building on the quarter 1 [period 5] HRA forecast outturn reported elsewhere on this agenda and is subject to changes that may be required to reflect government policy and housing priorities.

The anticipated balance carried forward at 31st March 2010 is expected to be £3.972m [based on the latest position in 2009-10].

At this stage, given the uncertainty around HRA Subsidy, and the need to complete the detailed HRA budget review, it is not possible to quantify the impact of changes over the three year period to indicate the likely balances at 31st March 2013.

However, assuming the in year position reported in Appendix 1 remains unchanged, balances would be £3.324m by 31st March 2013. This level of balances is £1.215m less than anticipated in the business plan at this point [a figure of £4.539m was assumed], and the impact of this position will require the longer term HRA options to be explored.

Context

1. The HRA will continue to maintain a minimum balance of £0.75m in line with the business plan.

2. Historically annual spend is greater than the income received in the year. This means that balances are reduced on an annual basis and cause pressure around the longer term funding of the HRA. The budget process will need to consider this policy with a view to making annual contributions to balances.

3. The management of the HRA is complicated by the subsidy system. The Government make assumptions about income and expenditure streams which result in resources being paid to assist housing nationally. This contrasts with the actual income and expenditure incurred on an annual basis. Further review of the notional HRA is required to enable efficiencies to be made and bring expenditure back in line with Government assumptions where possible and appropriate. This will mean reviewing average weekly costs of management and repairs to compare Harrow costs to those of other local authorities and relevant peer groups.

Income
The HRA income comprises mainly rent and service charge income, together with charges for facilities provided. The budgeted income for 2009-10 is £25.7m.

4. Average weekly rents, subject to amended Government guidelines anticipated at the end of October, are expected to be £88.51 2010-11, £93.04 2011-12 and £97.71 2012-13 [£84 2009-10]. Assumptions will be made around void performance and reduce rental income reflecting rent lost as a result from vacant dwellings.

5. Rental income will be reduced from 2010-11 onwards reflecting the transfer of 86 dwellings on the Mill Farm estate on 31st March 2009, subject to a successful ballot.

<u>Service Charge – Tenant and Leaseholders</u>

6. Average weekly service charges, again subject to Government guidelines are expected to be £4.53 2010-11, £4.66 2011-12 and £4.80 2012-13 [£4.39 2009-10]. This assumes no further depooling exercises.

7. Estate based costs detail the additional services provided to both tenants and leaseholders, and represent the services for which charges are applied to both tenants and leaseholders

£'000	
1,329	Estate based costs [incl communal lighting & grounds maintenance]
28	Leasehold admin costs [not recovered by admin fee]
601	Sheltered costs [after Supporting People Grant]
1,958	Total estate based costs [Appendix 1]
-1079	Tenant service charges
-230	Leaseholder service charges [excl Insurance, repairs, ground rent]
-1309	Total service charges income
649	Shortfall in estate based costs

8. In 2009-10 costs attributable to leaseholders are estimated at £581k and can be analysed as follows:

£'000	
230	Estate based costs
11	Ground rent
183	Insurance
424	Leaseholder service charges [Appendix 1]
62	Repairs costs
95	Administration fee
581	Total costs recovered from leaseholders

9. A 'lean' review of the service charge process to tenants and leaseholders will be conducted to ensure appropriate and accurate costs can be charged to enable maximization of resources for the landlord function.

<u>Income Maximisation</u>

10. Other rent income from garages, car parking, commercial shops and facilities charges is recommended to increase by 2% [in line with Council income inflation] – this will make an average garage rent of £13.77 [2009-10 £13.50] and average facility charge of £10.06 [2009-10 £9.86].

11. There are a number of options which can be explored
    - To relet voids at target rent – this could be delivered quickly. The gap in 2009/10 between the target rent [£94.11] and the revised overall actual rent [£84] is £10.11. Based on an estimated 232 properties void, this would generate additional rental income of £126k in a full year.
    - To reduce void rent loss – the issue here is two fold. Currently void rent loss is greater than budgeted assumptions, thereby increasing the in year deficit. Further work is required to determine whether meeting 28day turnaround targets will lead to increased income.
    - To increase facility charges to fully recover costs – shortfall of £139k between cost of utilities and amount recovered from tenants, resulting in average weekly costs of £13.76, an increase of £3.90 or 40% over the prior year [2009/10 £9.86].

- To increase repairs & publicity expenditure relating to the Council's void Garages to ensure optimum income generation capacity.
- To maximize tenant and leaseholder service charges to ensure consistency and to fully recover estate based costs, and may result in further depooling
- Implementation of the recharge policy
- Improve performance of rent collection

Expenditure
Budgeted expenditure for 2009-10 totals £26.8m.

For each pound received from rents, Harrow Council plans to spend:
- 4p on collecting rent and managing tenancies
- 4p on the sheltered housing wardens service
- 5p on estate based services
- 9p on services provided by other departments within the Council
- 18p on carrying out repairs to dwellings
- 23p on helping the Government with housing nationally
- 26p on repaying loans
- 11p on other costs across a range of service heads

<u>Employee Costs</u>
12. The financial strategy will anticipate pay increases for staff of 1% and pension contribution increases of 0.25% for 2010-11 and 2% thereafter reflecting the anticipated impact of the triennial review.

<u>Responsive Repairs</u>
13. In recent years there have been pressures in relation to repairs expenditure. Following a lean review of day to day repairs, the budget will be set based on the volume of repair orders at an average cost and is not expected to require growth in this respect.

14. The void process was outside the scope of the review however, the budget will be set based on the annual turnover of tenancies.

<u>Energy Costs</u>
15. There is considerable volatility in the energy market at this time and historically costs have not been fully recovered, however to maximize income and reduce in year pressures, costs will be expected to be fully recovered - paragraph 10 refers.

<u>Central Recharges</u>
16. These costs total £2.391m and are expected to increase by 2%, together with the costs of £357k capped in 2009-10. These reflect the cost of services provided to the landlord function from across the Council.

17. There are a number of costs crossing the HRA ringfence – Helpline costs and amenities shared by the community. As part of the wider council budget process, these costs will be appropriately charged, and are expected to offset the internal capped costs detailed in the paragraph above.

<u>Capital Investment and Prudential Borrowing</u>
18. The strategy assumes capital expenditure of £7.6m in 2010-11, £7.1m in 2011-12 and £7m in 2012-13. Further clarity is required around the level of investment required to achieve decent homes by the Government deadline of December 2010.

19. Capital expenditure will be funded from Major Reserve Allowances (MRA) and capital receipts [likely to be assumed at £250k reflecting the low level of dwelling sales] with the balance being financed through borrowing. The cost of borrowing in 2010/11 is expected to remain unchanged from 2009/10 at 4.20%.

20. Interest on HRA balances is estimated at an average of 2.00% [2009-10 1.50%].

21. The cost of borrowing £1m is £42,000 based on current interest rates, however, these costs vary based on the external economic environment. Additional borrowing is a long term commitment, requiring flexibility within the HRA to ensure that this can be resourced as these are not all subsidized.

Revenue Contribution to Capital Outlay (RCCO)

22. Cabinet approved in July 2009, a reduction in the level of RCCO to enable an increase in borrowing. An annual contribution of £500k is built into the current budget. Deletion of the RCCO programme would assist in bringing expenditure back in line with annual income however, this may restrict future flexibility as additional borrowing could then only be funded from efficiencies within the service.

HRA subsidy

23. The financial position of the HRA is heavily influenced by the HRA subsidy system – the present system for delivering finance to Council Housing, and is based on notional income and expenditure calculated by the Secretary of State in the annual Determination [a guideline around the modeling and assumptions used by the Government].

24. The draft determination is expected towards the end of October, and at this stage the financial position will be assessed.

25. The review of Council Housing Finance aimed to find a long term, sustainable solution to improve or replace the current Housing Revenue Account Subsidy system that would be fair to both tenant and taxpayer and fit with wider housing policy. The consultation process will conclude on 27 October 2009, with the Government response anticipated early in 2010. The impact of these changes is not expected to be reflected in the HRA until 2011/12 at the earliest.

Bad Debt Provision

26. The impact of the external economic environment resulted in an increase in the annual provision of £150k. Further review is required to identify whether this can now be reduced to historic contributions, assisting in reducing the annual expenditure.

General Contingency

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

Summary

28. 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.

29. The impact of the current economic climate will be estimated where possible within the three year budget period.

30. The impact of the lower level of balances will significantly shorten the period during which the Council has a viable HRA.

Financial Implications
These are contained within the main body of the report.

Risk Management Implications
The key risk is that income and expenditure cannot be brought back into line, resulting in annual in year deficits which will reduce HRA balances annually, ultimately causing the HRA to no longer be viable.

The report details a number of proposals which could be adopted to ensure that the risks are minimized.

Section 3 - Statutory Officer Clearance

Name: Jennifer Haydri Date: 23 October 2009	X	on behalf of the Chief Financial Officer
Name: Paresh Mehta Date: 23 October 2009	X	on behalf of the Monitoring Officer

Section 4 - Contact Details and Background Papers

Contact:
Donna Edwards
Finance Business Partner - Adults & Housing
Telephone: 020-8424-1140

Background Papers:

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