

HOUSING REVENUE ACCOUNT BUDGET AND HOUSING CAPITAL EXPENDITURE PROGRAMME 2010/11

1. BACKGROUND

- 1.1 The draft Housing Revenue Account (HRA) Subsidy Determination for 2010/11 was issued by Communities and Local Government on 10 December 2009. Its consultation period ends on 25 January 2010.
- 1.2 The subsidy position is a significant factor in the HRA budget. However, given the lateness of the consultation period deadline and the fact that there is unlikely to be any material change in the final Determination it is suggested that Cabinet agrees its recommended 2010/11 HRA budget using the draft figures.
- 1.3 On 20 January 2010 Housing Review Panel considered a proposed Housing Capital Programme and a proposed HRA budget, based on the draft subsidy figures. The report considered by Panel is attached as Annex A to this report.
- 1.4 Cabinet is required to recommend a 2010/11 Housing Capital Programme and 2010/11 HRA budget for consideration of Council on 22 February 2010.

2. TENANTS COMMENTS

- 2.1 The Housing Policy and Report Focus Group representatives supported the recommendations contained in this report.

3. REVIEW PANEL COMMENTS

- 3.1 The Housing Review Panel at their meeting on 20 January supported the recommendations contained in this report.

4. HOUSING PORTFOLIO HOLDER COMMENTS

- 4.1 I am disappointed that the HRA will be in deficit for 2010/11 but understand that the reasons for this have been outside of the Council's control. The additional £508k that we will pay to the government is unwelcome and I hope that any future review of the HRA system will remove this unfair tax on our tenants. I am pleased that the prudent management of the HRA over past years has enabled us to build up a substantial reserve that will enable us to fund much needed improvements to the North Milton Estate and, in the short term, mean that we can fund a deficit HRA.

5. RECOMMENDATIONS

That the Cabinet be asked to recommend to the Council:

- 5.1 That the Housing Revenue Account budget as set out in Appendix 1 of Annex A of this report be agreed;

- 5.2 That from 5 April 2010, an average increase in rents of 1.1% from the average 2009/10 rent level, in accordance with rent restructuring guidelines be agreed;
- 5.3 That from 5 April 2010, an increase of 5% in hostel service charges be agreed;
- 5.4 That from 5 April 2010, an increase of 5% in sheltered housing service charges be agreed;
- 5.5 That from 5 April 2010, an increase of 10 pence per week in garage rents (plus VAT for garages let to non-Council tenants) be agreed; and
- # 5.6 That a Housing Capital Programme of £9.870m as set out in Appendix 2 of Annex A of the report attached be agreed.

For Further Information Please Contact:

Bob Jackson
Executive Director
Tel: 023 8028 5263
Email: bob.jackson@nfdc.gov.uk

Background Papers:

HOUSING REVIEW PANEL - 20 JANUARY 2010

HOUSING REVENUE ACCOUNT BUDGET AND CAPITAL EXPENDITURE PROGRAMME 2010/11

1 INTRODUCTION

- 1.1 Communities and Local Government (CLG) issued the Draft Housing Revenue Account Subsidy Determination for 2010/11 (the draft subsidy) for consultation on 10th December 2009.
- 1.2 This report sets out for 2010/11 the proposed Housing Revenue Account (HRA) based on the draft subsidy and also the capital programme. The proposals may change if CLG amends the draft subsidy after the consultation period, which ends on 25th January 2010.
- 1.3 The indicative HRA budget is attached as **Appendix 1**. The proposed capital programme is attached as **Appendix 2**.

2 KEY ISSUES

- 2.1 Members are asked to consider a number of financial issues for 2010/11.
- 2.2 **Housing Rents**
 - 2.2.1 The report identifies the potential rent increase in line with the adoption of CLG proposals on rent restructuring, as approved by Cabinet on 5th December 2001. This reflects the policy stated in the Council's HRA Business Plan, which was approved by Cabinet on 8th July 2002.
 - 2.2.2 Following the late decision by government to allow a lower rent increase for 2009/10, the current actual average weekly rent being paid by NFDC tenants is £78.70, which is equivalent to a 2.3% increase on the 2008/09 rent of £76.96.
 - 2.2.3 As a higher rent was in effect for the first six weeks of the financial year, the overall average weekly rent paid by tenants during 2009/10 is £79.05. This is equivalent to a 2.7% increase on 2008/09 levels.
 - 2.2.4 Government guidance would appear to give the Council the option of applying the rent restructuring formula against either the current average rent or the full-year 2009/10 average as stated in the previous paragraphs. Impact on tenants will be kept to a minimum if the former approach is taken.

2.2.5 Using the criteria within the draft subsidy, it is proposed that average rents are increased to £79.54 for 2010/11. The actual rise would vary by property, and would amount to an increase of 84 pence or 1.1% over the current average. When compared to the 2009/10 full-year average rent as stated in paragraph 2.2.3, the increase is actually lower in percentage terms.

2.3 Hostels – Service Charges

2.3.1 Due to cost pressures particularly from the substantial rises in utilities charges which make up a significant proportion of costs, a £23k gap has developed between costs and service charge income.

2.3.2 As a result, whilst the longer term goal is to fully recover costs, it is proposed to continue with the phased approach adopted previously. This is to increase service charges by 5% and so minimise the immediate cost impact on a vulnerable client group.

2.4 Sheltered Housing – Service Charges

2.4.1 The primary aim when reviewing and setting the service charge for Sheltered Housing tenants is to ensure that relevant costs are fully recovered. It includes tenants in decommissioned sites who wanted to retain the service.

2.4.2 As with rents, the service charge payable by individual users varies according to their property and other factors, such as whether utilities costs are included and the level of service received.

2.4.3 There is currently a shortfall of £48k between costs and service charge income. It is therefore proposed to apply a 5% increase to service charges on the same basis as the hostel service charges. After taking into account the Supporting People and Floating Support subsidy received from HCC, this equates to an average increase of 2.7%.

2.5 Garage Rents

2.5.1 A garage rent increase of 10 pence per week is recommended.

2.5.2 This is a rise of 1.25% from £8.00 to £8.10 each week and is based on the average percentage growth proposed for Housing Rents, rounded to the nearest ten pence.

2.6 It is unlikely that the HRA budgets contained in this report will be revised prior to the start of the financial year because of the delay in receiving the draft subsidy and the expected duration of the consultation period, which conflicts with the Council timeframe to produce budgeted accounts for the 2010/11 financial year.

3 HRA INCOME 2010/11

3.1 Estimated total income for 2010/11 is £82k lower than proposed for 2009/10. The income variations from the 2009/10 approved budget are set out below:

	£000	Paragraph
Housing Rents	237	3.2
Garage Rents and Service Charges	-116	3.3
Contributions towards expenditure	-19	3.4
Major Repairs Allowance	-53	3.5
Interest receivable	56	3.6
Other income	-23	3.7
	<u>82</u>	

- 3.2 **Housing Rents (£237k)** – The original budgeted 2009/10 rent income was based on the average rent increase of 5.8% proposed in the 2009/10 final subsidy. This was subsequently reduced to 2.9% by the amending subsidy. The proposed budget for 2010/11 takes account of current rent income levels, including an improved rent voids performance and fewer Right to Buy (RTB) receipts. After uplifting for the proposed 1.1% increase mentioned in paragraph 2.2, the overall change is a reduction of £237k, which equates to growth of 4.1% on 2008/09 income levels.
- 3.3 **Garage Rents and Service Charges (-£116k)** – The proposed income budget reflects the true performance, uplifted by those amounts proposed in paragraphs 2.3 - 2.5 inclusive. Garage rents are expected to show a reduction of £46k year on year, offset by an increase of £162k on service charges.
- 3.4 **Contributions towards expenditure (-£19k)** – This is mainly due to the income relating to court action (-£16k) which is now being shown separately, rather than combined with the actual costs (see paragraph 4.4).
- 3.5 **Major Repairs Allowance (-£53k)** – The Major Repairs Allowance (MRA) subsidy per dwelling has risen by £11.41 (1.67%) to £695.40. As with other allowances, the MRA for 2010/11 is based on 5,028 units, resulting in a total subsidy of £3.496m.
- 3.6 **Interest receivable (£56k)** – Due to the anticipated decrease in the HRA reserve balance mainly due to the refurbishment of the North Milton Estate (paragraph 6.2) and the increase in the subsidy payable to government (section 5), but combined with the effect of the low interest rates, predicted interest earnings are expected to reduce by £55k.
- 3.7 **Other income (-£23k)** – The contribution from the general fund towards shared amenities has increased by £23k.

4 HRA EXPENDITURE 2010/11

- 4.1 Budgeted expenditure for 2010/11 is £91k higher than the approved budget for 2009/10. The major variations are set out below:

	£000	Paragraph
Major Repairs Allowance	53	4.2
HRA contribution	-53	4.3
Supervision and Management	95	4.4
Other costs	-4	4.5
	<u>91</u>	

- 4.2 **Major Repairs Allowance (£53k)** – The ten year maintenance and improvement programme was presented to Members on 21 November 2007 (Housing Review Panel – Report C) and included provision to maintain expenditure at the current level of £4.976m for 2010/11. This is partially funded by the £3.496m MRA provided for within the draft subsidy and mentioned in paragraph 3.5.
- 4.3 **HRA contribution (-£53k)** – The balance of maintenance and improvement mentioned above which exceeds the MRA awarded is funded by additional contributions from the HRA. As expenditure levels are unchanged, the extra MRA provided within the draft subsidy allows us to reduce the contribution required from the HRA by the same value (-£53k).
- 4.4 **Supervision and Management (95k)** – Of the increased costs, the primary reasons are inflation (£64k), a contribution from the HRA towards the new Property Services Manager post (£21k), and an increase in court fees (£16k) because income is now shown separately (see paragraph 3.4). Other changes within the HRA, particularly allocations from business units, largely have a nil effect on the bottom line although that there has been a reduction in allocation costs due to the closure of the canteen at Appletree Court (-£6k). It is important to note that the allocations to the sale of council houses have significantly reduced, reflecting the drop in RTB activity, although these charges have mainly been reallocated to other functions within the HRA.
- 4.5 **Other costs (-£4k)** – These are mainly for debt management costs which have reduced slightly in line with the draft subsidy requirements.

5 HOUSING SUBSIDY 2010/11

- 5.1 Changes to subsidy mean the payment to government is £508k higher than last year, as shown in the table below. All major items contributing to this are explained separately in the notes below the table:

	£000	Paragraph
Guideline Rent	-35	5.2
Capital Financing	723	5.3
Maintenance and Management	-180	5.4
	<u>508</u>	

- 5.2 **Guideline Rent (-£35k)** – The Government’s rent restructuring policy necessitates increases in guideline rents which in turn impact upon the actual rent payable. For 2010/11 the proposed increase of 84 pence (1.1%) from £78.70 to £79.54 will result in reduced subsidy of £550k. This is more than offset by a credit of £585k resulting from the amending subsidy mentioned in paragraph 3.2. This withdrawal of subsidy will continue until rent convergence has been achieved as per the restructuring policy.
- 5.3 **Capital Financing (£723k)** – As part of the subsidy calculations, CLG assume that the Council has a certain debt level, called our subsidy capital financing requirement (SCFR).
- 5.3.1 For historic reasons, our SCFR at £12.8m is overstated compared to the £1.9m actual HRA debt, this is a situation experienced by the majority of authorities within the HRA system.
- 5.3.2 The SCFR gives a positive benefit to the HRA as it reduces the level of subsidy payable to the government. For 2009/10, the projection was for a reduction from £864k, based on an estimated interest rate of 4.8%. Due to the historically low interest rates, our predicted rate is now just 0.4% and the subsidy has fallen to £141k, which is a reduction of £723k.
- 5.3.3 The interest payable on the actual debt is already showing at the lower level within the HRA accounts, having been reduced for the 2009/10 budget. For information, the actual amount payable fell by £78k to £22k. The HRA has in the past benefitted from this discrepancy between assumed debt and actual debt and will do so again should interest rates rise in the future.

- 5.4 **Maintenance and Management (-£180k)** – The following factors are responsible for the £180k funding increase:

Allowance per Property

	2009/10	2010/11	Change
Maintenance Allowance	£983.49	£1,003.46	+£19.97
Management Allowance	£455.31	£472.77	+£17.46
Number of Dwellings *	5,034	5,028	-6 no.

** 2010/11 dwellings are rounded. The actual stock numbers for comparative purposes are 5,034.25 and 5,028.25. In both cases, the 0.25 is the HRA owned element of a single shared-ownership property.*

Allowance for HRA

	2009/10	2010/11	Change
Maintenance Allowance *	-£4,951,140	-£5,045,650	-£94,510
Management Allowance *	-£2,292,140	-£2,377,220	-£85,080
Total Allowances	-£7,243,280	-£7,422,870	-£179,590

** Allowances shown are those quoted within the CLG Subsidy data as currently available. There may be minor rounding errors as the annual provision per dwelling is determined by dividing the allowance receivable by the number of dwellings, rather than multiplying the individual allowance by the number of dwellings.*

- 5.4.1 The per unit subsidy increases in the Maintenance and Management Allowances are 2% and 3.8% respectively, equating to a 2.6% increase combined. However as a result of the reduction in the number of dwellings the extra subsidy of £180k is a rise of 2.5%.

- 5.4.2 Included within the Management Allowance is a specific payment of £4 per dwelling towards energy performance certificate production, which is unchanged from 2009/10.

6 USE OF HRA RESERVES

- 6.1 In 2010/11, it is proposed to use £1.7m of the HRA reserve to fund two major projects for the benefit of the HRA with a further £1.5m to be used in 2011/12. HRA Reserves are currently just below £7.5m.
- 6.2 Members are referred to the Report of Cabinet 6th May 2009 presented to Council on 20th July 2009. Cabinet approved the North Milton Estate refurbishment over the period January 2010 to March 2012 at an estimated cost of £3m, to be funded from HRA reserves. A provisional sum of £1.5m has been allocated for those works scheduled to take place during 2010/11 with the balance being funded during 2011/12.
- 6.3 Members are also referred to the Report of Cabinet for 7th October 2009 presented to Council on 26th October 2009. Cabinet agreed to proceed with a bid to the Homes and Communities Agency (HCA) to build ten new properties, which was approved on 11th January 2010. A contribution of £200k from reserves is requested to complete the infrastructure requirements (primarily an access road to the properties) for the proposed development to proceed.

7 HRA BALANCES

- 7.1 HRA balances are expected to remain just below £7.5m at 31 March 2010. The projection for 2010/11 indicates an HRA deficit of £508k, which is a swing of £681k from the anticipated surplus balance (-£173k) in 2009/10. This does not include the use of reserves to fund the projects mentioned in section 6.
- 7.2 The movement is largely the increase in the net subsidy payable (£508k) reported in section 5 and the effect of the reduced income and increased expenditure (£173k) covered within sections 3 and 4 above.
- 7.3 The result of the use of reserves towards the North Milton Estate refurbishment (£1.5m) and the proposed contribution towards the new build of housing properties (£200k) will impact upon the HRA interest earnings, although the extent of that impact will be minimal due to the current low interest rates.
- 7.4 It is anticipated that for 2011/12 the HRA will remain in deficit but the full effect will be dependant upon the level of rent increase proposed under the restructuring criteria; any recovery in interest rates; possible implications from the proposed reform of housing finance and the wider effect that the economic situation may have on national finances and the HRA as a whole.
- 7.5 There will also be a need to fund the balance of the North Milton Estate refurbishment from reserves in 2011/12. However as noted in previous reports and illustrated above, the HRA reserves are sufficient to fully fund this project.

8 CAPITAL PROGRAMME 2010/11

- 8.1 The proposed expenditure and funding is outlined in the table below:

	2009/10	2010/11
Proposed Expenditure	£000	£000
Private Sector Renewal	102	102
Disabled Facilities Grant	507	507
Social Housing Grant	1,314	985
Environmental Enhancements	200	200
Major Repairs	4,976	4,976
Major Projects	0	1,500
NFDC New Build	0	1,600
TOTAL	7,099	9,870
Funded by		
Government Funding		
GOSE Allocation	318	318
Major Repairs Allowance	3,443	3,496
HCA Contribution to New Build	0	650
NFDC Resources		
HRA Revenue Contribution	1,733	1,680
HRA Reserves	0	1,700
Capital Receipts	1,605	1,326
Loan Financing for New Build	0	700
TOTAL	7,099	9,870

- 8.2 The proposed capital programme is largely unchanged from 2009/10 except for a reduction to the Local Authority Social Housing Grant (SHG) budget and the addition of the major projects and new build budgets. Major Projects relates to the North Milton Estate refurbishment, whilst the new build reflects the cost of the proposed development for new properties, which includes the infrastructure contribution requested in section 6.
- 8.3 There are three new sources of financing for 2010/11. These are the contribution from the HCA towards the new build properties; a proposal to borrow £700k to fund the NFDC contribution towards that same project; and the use of reserves to pay for the North Milton Estate refurbishment and the infrastructure contribution for the new build. The increase in the Major Repairs Allowance is offset by a reduction in the HRA contribution. The Government Office for the South East (GOSE) is yet to confirm their contribution to the Disabled Facilities Grant (DFG) programme for 2010/11 and until this is received, it is assumed current criteria and funding will not change, including our own £189k contribution.
- 8.4 RTB receipts remain minimal with only seven sales having been completed so far this year, realising £220k in funding for affordable housing. Developers Contributions for 2009/10 in respect of affordable housing are just over £77k. Both of these are included within the overall useable capital receipts figure.
- 8.5 The SHG budget has been reduced in order to reflect the current conditions. There has been relatively little activity in terms of SHG during 2009/10 and the budget for 2010/11 has been reduced simply to recognise the overall economic difficulties facing the market. These grants to Registered Social Landlords (RSLs) are for the provision of Affordable Housing, which is one of the Council's Key Priorities. The intention is to reinstate the budget as the economy improves. It should also be noted that the HCA are reducing their funding to RSLs and so this may place a greater burden of demand and expectation upon SHG.
- 8.6 The capital spending power of the Council is limited by the availability of usable capital receipts; the ability to fund capital expenditure from revenue sources (Council Tax, HRA rents and balances); or through the use of borrowing.
- 8.7 As can be seen in Appendix 2, the capital programme can be fully funded for 2010/11 but the future is somewhat bleaker. Either additional funding or a reduction in the proposed programme to the value of £659k in 2011/12, rising to £1.4m thereafter must be identified. In light of the reduced receipts and the statutory nature of DFG provision, consideration will need to be given on how best to fund the Housing capital programme for the medium and long-term.
- 8.8 Based upon the proposals above, the Housing capital programme for 2010/11 (and provisional estimates to 2013/14) is detailed in Appendix 2 for consideration by the Review Panel and eventual submission to Council on 22nd February 2010.

9 ENVIRONMENTAL IMPLICATIONS

- 9.1 Although the services covered in this report clearly do have an impact on the Environment, this report focuses on the financial effect of the Government's subsidy proposals and the proposed HRA budgets and capital programme. There are no direct environmental implications arising from this report.

10 CRIME AND DISORDER IMPLICATIONS

10.1 Paragraph 9.1 applies. There are no direct crime and disorder implications arising from this report.

11 EQUALITY AND DIVERSITY IMPLICATIONS

11.1 Paragraph 9.1 applies. There are no direct equality and diversity implications arising from this report.

12 TENANTS VIEWS

12.1 Tenants' views will be sought at the meeting of the Policy and Report Focus Group on 14th January 2010 and will be reported to Panel at the meeting.

13 PORTFOLIO HOLDER COMMENTS

13.1 I am disappointed that the HRA will be in deficit for 2010/11 but understand that the reasons for this have been outside of the Council's control. The additional £508k that we will pay to the government is unwelcome and I hope that any future review of the HRA system will remove this unfair tax on our tenants. I am pleased that the prudent management of the HRA over past years has enabled us to build up a substantial reserve that will enable us to fund much needed improvements to the North Milton Estate and, in the short term, mean that we can fund a deficit HRA.

14 RECOMMENDATIONS

14.1 Members are recommended to:

- i) Approve the HRA budget and capital programme for 2010/11 subject to any comments and proposals to be passed to Cabinet.
- ii) Agree the inclusion within the HRA budget of the expenditure proposals in section 6 and the proposed increases of:
 - Service charges in line with the detailed proposals in section 2.
 - £0.10 per week increase for garage rents (plus VAT for garages let to non-Council tenants).
- iii) Agree any comments to be passed to Cabinet in respect of the proposed increase in Housing Rents.

Further Information:

Dave Brown
Head of Housing Services
023 8028 5141
Email: dave.brown@nfdc.gov.uk

Background Papers:

Published documents as referred to within this report.

HOUSING REVENUE ACCOUNT BUDGET

	2009/10 £'000	2010/11 £'000	Variation £'000	Para.
INCOME				
Dwelling Rents	-20,943	-20,706	237	3.2
Non Dwelling Rents	-756	-710	46	3.3
Charges for Services & Facilities	-1,042	-1,204	-162	3.3
Contributions towards Expenditure	-63	-82	-19	3.4
Major Repairs Allowance Received	-3,443	-3,496	-53	3.5
Interest Receivable	-82	-26	56	3.6
Sales Administration Recharge	-15	-15	0	3.7
Shared Amenities Contribution	-137	-160	-23	3.7
Total Income	-26,481	-26,399	82	
EXPENDITURE				
Major Repairs (incl. additional contribution)	4,976	4,976	0	4.2/4.3
Environmental Enhancements	200	200	0	4.5
Cyclical Maintenance	1,245	1,245	0	4.5
Disabled Facilities	459	459	0	4.5
Reactive Maintenance	2,000	2,000	0	4.5
Supervision & Management				
General Management	3,084	3,184	100	4.4
Special Services	1,863	1,882	19	4.4
Homeless Assistance	92	93	1	4.4
Sale of Council Houses	49	24	-25	4.4
Rents, Rates, Taxes and Other Charges	31	31	0	4.5
Rent Rebates	112	111	-1	4.5
Provision for Bad Debt	30	30	0	4.5
Capital Financing Costs	258	255	-3	4.5
Total Expenditure	14,399	14,490	91	
HRA Operating Surplus(-) / Deficit	-12,082	-11,909	173	
Housing Subsidy Payable to Government				
Guideline Rent (payable)	20,016	19,981	-35	5.2
Capital Financing (receivable)	-864	-141	723	5.3
Management and Maintenance (receivable)	-7,243	-7,423	-180	5.4
Total Housing Subsidy Payable	11,909	12,417	508	
HRA Total Annual Surplus(-) / Deficit	-173	508	681	
Use of HRA Reserve for Major Projects	0	1,700	1,700	
Net Effect to HRA Reserve Balance	-173	2,208	2,381	

NEW FOREST DISTRICT COUNCIL
HOUSING PORTFOLIO CAPITAL PROGRAMME - 2009/10 to 2012/13

PROJECT	Original Estimate 2009/10 £'000	Forecast Capital Expenditure			
		2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
<u>PRIVATE SECTOR</u>					
IMPROVEMENT GRANTS					
Private Sector Renewal / Home Repairs	102	102	102	102	102
Disabled Facilities Grant	507	507	507	507	507
Total Improvement Grants	609	609	609	609	609
ENABLING ACTIVITIES					
Social Housing Grant	1,314	550	985	1,300	1,300
Total Enabling Activities	1,314	550	985	1,300	1,300
Reductions in programme to be identified				-659	-1,391
TOTAL PRIVATE SECTOR	1,923	1,159	1,594	1,250	518
<u>PUBLIC SECTOR</u>					
Major Repairs	4,976	4,976	4,976	4,976	4,971
Environmental Enhancements	200	200	200	200	200
Major Projects	0	0	1,500	1,500	0
NFDC New Build	0	0	1,600	0	0
TOTAL PUBLIC SECTOR	5,176	5,176	8,276	6,676	5,171
TOTAL EXPENDITURE	7,099	6,335	9,870	7,926	5,689
<u>FINANCING - PRIVATE SECTOR</u>					
Government Disabled Facilities Grant	318	318	318	318	318
Developers' Contributions	0	78	50	50	50
Capital Receipts	1,605	763	1,226	882	150
	1,923	1,159	1,594	1,250	518
<u>FINANCING - PUBLIC SECTOR</u>					
Major Repairs Allowance	3,443	3,443	3,496	3,496	3,496
HRA Revenue Contribution	1,733	1,733	3,380	3,180	1,675
New Build Grant			650		
New Build Loan			700		
Capital Receipts			50		
	5,176	5,176	8,276	6,676	5,171
TOTAL FINANCING	7,099	6,335	9,870	7,926	5,689