

Committee: Community & Housing

Agenda Item

Date: 20 January 2011

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Title: 2011/12 HOUSING REVENUE ACCOUNT
BUDGET AND RENT SETTING

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Item for
decision

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Summary

1. This report sets out the 2011/12 Housing Revenue Account (HRA) budget, and asks Members to approve this, along with increases in rent levels and other charges.
2. The Committee's recommendations will be reported to the Finance & Administration Committee on 8th February ahead of final determination by the Council on 24th February.
3. The information in this report is based upon the DCLG 2011/12 housing subsidy determination.
4. The recommendations in this report were discussed at a Tenants Forum meeting on 13th January. The Committee will receive a verbal update of the key issues arising from this discussion.
5. The rent increase is proposed to be an average of 6.75%. This compares with inflation (CPI) which at time of writing this report is 3.3%. The increase brings the average rent to £82.71.
6. To ensure that there is capacity/resources available within the Council to deal with the Government's proposed 2012/13 reform of council housing finance it is proposed to transfer £100,000 from the HRA Working Balance to the new HRA Change Management Reserve.
7. The HRA budget for 2011/12 is for an in-year deficit of £101,000, which will bring the HRA Working Balance as at 31st March 2012 (after the transfer to the Change Management Reserve) to an estimated £636,000. This is above the minimum safe contingency level.
8. To help mitigate for any short fall in the Capital repairs programme it is proposed that £300,000 is transferred to the Major Repairs Reserve for future drawdown.

Recommendations

9. The Committee is recommended to approve, for recommendation to the Finance & Administration Committee on the 8th February:
 - a) The Housing Revenue Account 2011/12 Original Budget as shown in Appendix A
 - b) An average increase in dwelling rents of 6.75%
 - c) An increase in garage rents of 3.3%
 - d) Other charges to increase in line with actual costs incurred.

Background Papers

- DCLG HRA Subsidy Determinations 2011/12

Impact

Communication/Consultation	The issues in this report were discussed at the Tenants Forum meeting on 13 January. The Committee will receive a verbal summary of the discussion.
Community Safety	No specific implications.
Equalities	No specific implications.
Finance	Detailed in the report.
Health and Safety	No specific implications
Human Rights	No specific implications.
Legal implications	No specific implications.
Sustainability	No specific implications.
Ward-specific impacts	No specific implications.
Workforce/Workplace	No specific implications.

Housing Revenue Account Original Budget 2011/12

10. Appendix A sets out the HRA Original Budget for 2011/12, together with comparative figures for 2010/11 and 2009/10. Members are recommended to approve the Original Budget.
11. The 2011/12 Original Budget is for a net in-year deficit of £101,000. Below are explanations of the major items contained within the budget.

Dwelling Rents

12. The Government's policy is to bring about a converging pattern of rents for all similar social housing properties. The original intention was to achieve convergence to a "Formula Rent" level by 2011/12. This target date changes according to economic conditions; the draft 2011/12 determination seeks to achieve convergence by 2015/16 i.e. within 5 years. All things being equal, properties with rents below the Formula Rent level would have their rent increased in 2011/12 at such a rate that they would reach the Formula Rent level in 5 years.
13. However, Government specified caps and limits restrict the amount of any individual increase to a maximum of RPI+ ½% + £2. (The RPI is the value in September of the preceding year. In this case, RPI in September 2010 was at 4.6%). This is to protect tenants from excessive annual increases.
14. The effect of the caps and limits is that for many properties, the increase in 2010/11 is smaller than that required to reach the Formula Rent level within 5 years.
15. In addition to Formula Rent convergence, calculation of rent increases also takes into account the Government set Limit Rent, the maximum rent for each type of property, which must not be exceeded) and Guideline Rent (the level of rent used in the notional housing subsidy calculation). The average levels applicable to UDC are shown below, together with the Actual Rents charged to tenants:

UDC Subsidy Rent Parameters			
	2010/11	2011/12	Change
	Determination	Determination	
	(£/week)	(£/week)	(£/week)
Formula Rent	83.95	88.16	+ 4.21
Limit Rent	79.54	84.51	+4.97
Guideline Rent	75.34	79.14	+3.80
Actual Rent	77.48	82.71 (proposed)	+5.23

16. Detailed calculations shows that the average weekly increase will be 6.75%. This will increase the calculated average rent by £5.23 from £77.48 to £82.71 per week. Individual rent increases range between 5.27% and 8.75%.
17. The government specifies a limit rent for each authority, which triggers a penalty if rents are set such that the average rent exceeds the limit rent. The proposed average rent (£82.71 per week) is below the limit rent (£84.51 per week) and so the subsidy calculation is unaffected.

Garage Rents

18. In 2010/11 Garage Rents are an average of £8.58 per week. It is proposed that this be increased by 3.3% in line with inflation (CPI), bringing the average to £8.84 an increase of £0.26 per week.

Charges for Services & Facilities (Council tenants)

19. These are charges for sewage & water and heating. Tenants are recharged for these services on the basis of actual cost.
20. The Government expect that general common services costs be recharged to tenants. The Council does not currently do this but is examining a potential methodology and may implement this during 2011.

Contribution towards expenditure (Private Owners)

21. Private owners are recharged, on the basis of actual cost, for sewage & water, heating, water and general common services.

Housing Repairs

22. An increase in this budget is proposed. Where possible, work is done on a planned maintenance programme in order to minimise the cost of responsive repairs.

Housing Services

23. The small reduction in this budget is due to an erroneous budget in the 2010/11 estimate. This has been removed for 2011/12.

Property Services

24. The budget for this service remains approximately at the same levels for 2011 as set for the current 2010 budget.

Sheltered Housing

25. Essex County Council is carrying out a separate Supporting People review. At time of writing this report the annual grant figure had not been determined. There is a risk of funding being reduced, as reported to the Committee in November. An adjustment to the budget may be required when the final figure is known.
26. An inflationary increase to the different levels of supporting people charges is proposed for 2011/12 as follows:

	Old weekly £	new weekly £
Gold:	14.13	14.60
Silver:	12.50	12.91
Bronze:	10.00	10.33

27. The Lifeline service supports people both within the HRA and within privately owned accommodation. The cost of the service is fully recovered from users. Service users are charged £46.02 per quarter (= £3.54 per week) for Lifeline services in 2010/11. An inflationary increase to £47.45 is proposed for 2011/12.

Common Service Flats

28. There is a small increase in this budget in 2011/12 due to the inflation on gas, and electricity costs.

Estate Maintenance

29. This budget covers the costs of maintaining non-adopted HRA owned roads, grounds and parking areas. Increased by £30,000 for the 2011/12 budget.

Negative Housing Subsidy

30. The subsidy mechanism identifies notional levels of expenditure, rent and other income. The formula for calculating the subsidy payable for 2011/12 is essentially unchanged from that used for 2010/11. The forecast surplus to be paid to central government is £4.898m for 2010/11 and £5.199m for 2011/12.

31. Below is a breakdown of the subsidy calculation.

<u>Elements of Subsidy Calculation</u>	2010/11 Forecast Outturn £'000	2011/12 Subsidy Determination £'000
Management	1,273	1,376
Maintenance	2,876	2,957
Major Repairs Allowance	1,955	2,011
Rent	(11,041)	(11,583)
Debt management expenses	39	40
Total notional surplus	(4,898)	(5,199)

Contribution to Capital Programme

32. There is sufficient flexibility within the HRA budget to afford a revenue contribution to capital expenditure, in order to ensure that decent home standards are maintained, responsive maintenance is avoided and improvements such as disabled adaptations can be progressed. A sum of £500,000 has been allocated; the actual amount will depend upon the identification of opportunities and progress of capital schemes during the year.

Recharge from General Fund HRA Share of Corporate Core

33. These sums reflect HRA-related costs that for practical reasons are initially charged to the General Fund, and the HRA share of the Council's overheads. The amount is based upon a detailed recharges methodology that is subject to continuous review to ensure that a fair proportion of costs is met by the HRA. This is estimated to be £23,000 less in 2011/12 than the estimated charge for 2010/11.

HRA Balances

34. The forecast HRA Working Balance as at 31 March 2011 is £0.837m and as at 31st March 2012 is £0.636m. The Council's policy, according to the Medium Term Financial Strategy, is to maintain the Working Balance at least at a level of balances equivalent to a 2% contingency (2% of income plus 2% of expenditure). This size of balance is necessary to ensure a safe contingency level.

35. The 2011/12 budget has total income of £12.874m and total expenditure of £12.890m. Based on a 2% contingency, this generates a target Working Balance of £0.515m. As the forecasted balance is above the target level, the intention is to identify opportunities to use the Working Balance to accelerate capital programme schemes and address repairs backlogs. The Committee will be kept informed of progress in this area.

36. To help mitigate for any short fall in the Capital repairs programme under the new 'Self Financing' proposals it is recommended that £300,000 is transfer from the 'Housing Revenue Account' and ring-fenced within the Major Repairs Reserve for future drawdown. To ensure capacity to implement the reforms it is proposed to establish a "Change Management" reserve of £100,000. Appendix B shows all the HRA reserves.

HRA Business Plan

37. An HRA business plan, consistent with the proposals in this report, is in preparation and will be brought to the Committee in March for approval.

HOUSING REVENUE ACCOUNT SUMMARY

£000	2009/10 Actual	2010/11 Original budget	2010/11 Current Budget	2010/11 Forecast Outturn	2011/12 Original budget
Dwelling Rents	-11,150	-11,340	-11,340	-11,296	-12,067
Garage Rents	-197	-210	-213	-198	-221
Other rents etc	-5	-6	-3	-3	-4
Charges for Services & Facilities	-518	-477	-477	-477	-491
Contributions towards expenditure	-106	-87	-88	-74	-87
Investment Income	-4	-5	-5	-4	-4
Sub-total – Direct Income	-11,980	-12,125	-12,126	-12,052	-12,874
Housing Repairs	1,723	1,650	1,692	1,685	1,826
Housing Services	286	337	334	266	297
Property Services	273	412	365	312	362
Rent Collection & Accounting	97	81	81	72	91
Sheltered Housing Services	318	360	390	414	382
Common Service Flats	371	371	371	371	381
Housing Sewerage	17	13	13	19	51
Estate Maintenance	196	199	199	197	239
Rents, Rates & Other Property Charges	41	30	30	42	46
Negative Housing Subsidy	5,136	4,937	4,937	4,898	5,199
Depreciation - Dwellings	1,926	1,955	1,955	1,955	2,011
Depreciation - Other assets	211	211	211	211	215
Bad Debt Provision	82	59	59	59	65
Contribution to capital programme	218	400	400	400	500
Sub-total - Direct Expenditure	10,895	11,015	11,037	10,901	11,665
Recharge from General Fund	940	930	930	930	926
HRA Share of Corporate Core	261	267	267	267	248
Pension costs	157	51	51	51	51
Sub-total - Total Net Expenditure	12,253	12,263	12,285	12,149	12,890
Operating deficit	273	138	159	97	16
Transfer to Major Repairs Reserve	0	0	0	0	300
Transfer from Major Repairs Reserve	-211	-211	-211	-211	-215
In year surplus (-) / deficit	62	-73	-52	-114	101

HOUSING REVENUE ACCOUNT RESERVES

<u>HRA Working Balance</u>
Balance brought forward
In year surplus (-) / deficit
Transfer to HRA Change Management Reserve
Balance carried forward

2009/10 Actual	2010/11 Original budget	2010/11 Current Budget	2010/11 Forecast Outturn	2011/12 Original budget
-785	-723	-723	-723	-837
62	-73	-52	-114	101
0	0	0	0	100
-723	-796	-775	-837	-636

<u>HRA Change Management Reserve</u>
Balance brought forward
Transfer from HRA working Balance
Transfer to HRA
Balance carried forward

2009/10 Actual	2010/11 Original budget	2010/11 Current Budget	2010/11 Forecast Outturn	2011/12 Original budget
0	0	0	0	0
0	0	0	0	-100
0	0	0	0	0
0	0	0	0	-100

<u>Major Repairs Reserve</u>
Balance brought forward
Transfer to HRA
Transfer from HRA
Balance carried forward

2009/10 Actual	2010/11 Original budget	2010/11 Current Budget	2010/11 Forecast Outturn	2011/12 Original budget
0	0	0	0	0
2,137	2,166	2,166	2,166	2,226
-2,137	-2,166	-2,166	-2,166	-2,526
0	0	0	0	-300