

Committee: Finance & Administration Committee
Date: 10 February 2009
Title: **Housing Revenue Account 2009/10**
Author: **Stephen Joyce, Chief Finance Officer**

Agenda Item

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Item for
decision

Summary

1. On 22 January, the Community & Housing Committee approved the 2009/10 Housing Revenue Account budget, rents and service charges, for recommendation to Full Council on 19 February.
2. The Finance & Administration Committee is requested to endorse the Community & Housing Committee decision.
3. A copy of the report received by Community & Housing Committee is attached as an appendix for ease of reference.

Recommendations

4. Members are requested to endorse the decision of the Community & Housing Committee to recommend to Full Council on 19 February approval of the following, as set out in the attached report:
 - The Housing Revenue Account 2009/10 Original Budget
 - An average increase in dwelling rents of 6.07%
 - An increase in garage rents of 6.07%
 - An increase in heating charges of 5.5% and sewerage charges to increase in line with actual costs
 - Confirmation that charges for warden services are set from April 2009 in accordance with the contracts with the Commissioning Body, and that protection be continued for tenants at 31st March 2003 who are ineligible for supporting people grant assistance. Charges for lifeline services are similarly to be set from April 2009 in line with the contract with the Commissioning Body.

APPENDIX

REPORT TO COMMUNITY AND HOUSING ON 22 JANUARY 2009

Committee: Community

Agenda Item

Date: 22 January 2009

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Title: HOUSING REVENUE ACCOUNT ESTIMATES
AND RENT LEVELS 2009/10

Author: Roz Millership, Head of Housing

Item for
decision

Stephen Joyce, Chief Finance Officer

Summary

1. This report sets out the 2009/10 draft estimates for the Housing Revenue Account (HRA), and asks Members to approve increases in rent levels and other charges.
2. The recommendations in this report were discussed at a Tenants Forum meeting on 12 January. The Forum were supportive of the approach taken by the Council but were unhappy with the constraints arising from Government guidance and Negative Housing Subsidy in particular.
3. Negative Housing Subsidy continues to pose challenges for the HRA with an increase of 6% in 2009/10. The amount paid over to central government is equivalent to around 48% of total rental income. Representations have been made to Ministers and the Government is reviewing the housing finance system. Meanwhile, the Housing Subsidy methodology gives the Council little room for manoeuvre within HRA financial planning and rent setting.
4. The proposed increase in the average weekly rent is 6.07%, which has been calculated in accordance with guidance issued by the Government and their expectation that on a national basis, the average increase will be around 6%. The maximum average increase permissible for an individual council is 7% but in spite of financial pressures within the HRA, it is not felt that an increase at this level would be desirable.
5. At 1 April 2008, the HRA Working Balance was £550,480. This is estimated to decrease to £304,000 by 31 March 2009 and decrease further in 2009/10. Medium term forecasts suggest that the situation will begin to stabilise and improve, but that balances will remain below a minimum safe level until at least 2013/14. Robust financial management will be required to ensure the viability of the HRA; meanwhile strategic solutions are to be explored. The budget estimates for 2009/10 contain provision for an options appraisal.
6. The Committee's recommendations will be reported to the Finance & Administration Committee on 10 February ahead of final determination by the Council on 19 February.

Recommendations

7. The Committee is recommended to approve, for recommendation to Full Council:

- The Housing Revenue Account 2009/10 Original Budget as shown in Appendix A
- An average increase in dwelling rents of 6.07%
- An increase in garage rents of 6.07%
- An increase in heating charges of 5.5% and sewerage charges to increase in line with actual costs
- Confirmation that charges for warden services are set from April 2009 in accordance with the contracts with the Commissioning Body, and that protection be continued for tenants at 31st March 2003 who are ineligible for supporting people grant assistance. Charges for lifeline services are similarly to be set from April 2009 in line with the contract with the Commissioning Body.

Background Papers

- Uttlesford DC HRA Business Plan December 2007
- DCLG HRA Final Subsidy Determinations 2009/2010
- Budget working papers 2009/10
- Report to the Tenants Forum Group 12 January 2009
- Report to committee – Fees and Charges (Lifeline)

Impact

Communication/Consultation	The Tenants Forum have been consulted and accept the recommendations, but are unhappy with the Government.
Community Safety	No specific implications.
Equalities	No specific implications.
Finance	Detailed in the report.
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 2009/10

8. Appendix A sets out the HRA Original Budget for 2009/10, together with comparative figures for 2008/09 and 2007/08. Members are recommended to approve the Original Budget.
9. Set below are explanations of the major items contained within the budget.

Dwelling Rents

10. The DCLG is continuing to bring about a converging pattern of rents for all similar social housing properties. The original intention was to achieve convergence over the ten-year period 2002/03 to 2011/12. This has now changed to 2002/03 to 2024/25. Based on government set criteria, rent levels will vary according to local property values and manual earnings. Rents will need to continue to be adjusted to move towards the “formula rent” derived from the DCLG formula.
11. Criteria for calculating rent levels for UDC housing stock include the following government defined parameters:
 - Formula rent – Rent level after full convergence.
 - Guideline rent – Rent level assumed in Subsidy calculation.
 - Limit rent – Maximum rent allowed without a proportion of ‘excess’ Housing Benefit payments being added to the negative subsidy payment.

The average levels applicable to UDC are shown below.

UDC Subsidy Rent Parameters			
	2008/09	2009/10	Increase
	(£/week)	(£/week)	(£/week)
Formula Rent	80.23	84.71	4.48
Guideline Rent	74.14	78.69	4.55
Limit Rent	75.94	80.47	4.53

12. Failure to increase rents in line with the Guideline Rent would make it increasingly difficult to pay the calculated HRA surplus to the Government.
13. The DCLG has indicated that regard should be given to the general concept of rent re-structuring when considering rent increases for 2009/10. This implies that rents should continue towards the formula rent. Although no average rent increase has been specified, the government expects increases to be around 6% with a limit of 7% for an individual authority.

14. The method of calculating the Formula Rent remains unchanged and, although individual rent caps prevent UDC fully achieving rent restructuring by the government recommended date (now 2024/25), these estimates have been prepared in a similar manner to previous years in order for all actual rents to equal formula rents as soon as possible.
15. As in previous years, individual increases are limited to RPI @ September (5%) + ½% + £2.00. Applying this condition within the formula calculation shows that the average weekly increase overall will be 6.07%. This will increase the calculated average rent from £74.14 to £78.65 per week and increase rental income by £670,000. Individual rent increases range between 4.97% and 8.3%.
16. 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 (£78.65 per week) is below the limit rent (£80.47 per week) and so the subsidy calculation is unaffected.

Housing Repairs

17. The Housing Repairs budget has decreased by 2.3% from £1.887m to £1.842m. This is largely due to a decrease of £50,000 in respect of external decoration schemes.

Supervision and Management

18. This heading covers the costs of Sheltered Housing, Property Services, Rent Collection, Estate Maintenance and Housing Management.
19. The Supervision & Management budget has increased by 7.5%, from £2.477m to £2.664m. The main reasons for this increase are utilities costs.

Negative Housing Subsidy

20. The DCLG issued Final Subsidy Determinations on 22 December for 2009/10. The determination covers all elements of the HRA, most of which are fixed.
21. The subsidy mechanism identifies notional levels of expenditure, rent and other income. The formula for calculating the subsidy payable for 2009/10 is essentially unchanged from that used for 2008/09 with the exception that the Rent Restructuring date has been moved from 2012 to 2024. The 'notional' surplus to be paid to central government is £5.160m for 2008/09 and £5.469m for 2009/10 (+6%).
22. Below is a breakdown of the subsidy calculation.

<u>Elements of Subsidy Calculation</u>	2008/09	2009/10
	£'000	£'000
Management and Maintenance	3,823	4,015
Major Repairs Allowance (MRA)	1,864	1,930
Rent (based on guidelines)	(10,907)	(11,456)
Capital Charges + Interest Rcpts	60	42
Total notional surplus	(5,160)	(5,469)

HRA Balances

23. The following table shows the forecasted position for the HRA Working Balance, compared with a target level of balances equivalent to a 2% contingency. This size of balance is necessary to ensure a safe contingency level.

£m	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	Revised	Original	Forecast	Forecast	Forecast	Forecast
Income	-11.553	-12.266	-12.879	-13.523	-14.199	-14.909
Expenditure	11.716	12.183	12.743	13.330	13.943	14.584
Other items	0.335	0.353	0.367	0.382	0.397	0.413
In year operating deficit	0.498	0.270	0.231	0.188	0.140	0.088
Working Balance						
Opening balance	-0.551	-0.304	-0.286	-0.307	-0.371	-0.482
Transfer from major repairs reserve	-0.251	-0.252	-0.252	-0.252	-0.252	-0.252
In year operating deficit	0.498	0.270	0.231	0.188	0.140	0.088
Closing Balance	-0.304	-0.286	-0.307	-0.371	-0.482	-0.646
Target level of balance	0.472	0.496	0.520	0.545	0.571	0.598

24. The table shows that because income is forecasted to increase at a slightly higher rate than expenditure, the in-year operating deficit is reducing year on year. However, the forecasted HRA Working Balance is below the target level until 2013/14. Strategic solutions to address this are required, meanwhile it is necessary to maximise income and keep costs under control.

Supporting People including Lifeline Services

25. The "Supporting People" arrangements introduced from April 2003 mean that tenants receiving warden services now pay charges intended to recover the cost of those services. Those tenants who qualify receive assistance with these charges through the County Council. Tenants who would not otherwise qualify, but who were in receipt of the service when the scheme began, continue to be partially subsidised from the HRA.
26. In recent years, charges for sheltered services have been adjusted to take into account the available level of Supporting People grant. These estimates assume that the grant rates will again be held at current levels. The Commissioning Body are likely to decide actual 2009/10 grant levels sometime in January 2009. The 2009/10 budget estimates are based on provisional weekly charges of £13.58 and £6.32 (reduced rate).

Charge rates and grants levels from 2007/08 are as follows:

	Charge	Grant
2007/08	£13.58 per wk	£13.58 per wk
2008/09	£13.58 per wk	£13.58 per wk
2009/10	£13.58 per wk	£13.58 per wk

A reduced rate is set for those tenants who were in receipt of the service prior to April 2003 but are not eligible for the full grant:

	Reduced Rate (nil grant)
2007/08	£ 6.17 per wk
2008/09	£ 6.32 per wk
2009/10	£ 6.32 per wk

27. The Lifeline service provides for customers both within the HRA and within the General Fund. The cost of the service is fully recovered from users. Private tenants and householders are charged £44.90 per quarter (= £3.45 per week) for 2008/09 for Lifeline services. It is proposed to increase the charge rate for 2009/10 to £3.54 (2.6%) These charges have not been increased for 9 years.
28. Lifeline charges to tenants will be increased to the same amount paid by private tenants and householders. Budgets for Supporting People Grants and Lifeline Services for 2009/10 have been based on the assumption that grant rates will match the proposed increase in charges to tenants.
29. The estimated income is based on grant levels for at 2008/09 levels being maintained, and the increased proposals for 2009/10.

	Lifeline Charge Private	Lifeline Charge Tenants	Lifeline Grant Tenants
2008/09	£ 3.45 per week	£ 3.07 per week	£3.07 per week
2009/10	£ 3.54 per week	£ 3.54 per week	£3.54 per week

30. Late notifications of grant levels and delays in processing changes in entitlement can give rise to over or underpayments of grant. Essex County Council has recently implemented a batch of corrections from previous years, and a significant number of corrections for underpayments are being progressed. The adjustments have been provided for and will not impact on the budgeted amounts.

Charges to non-tenants

31. Costs of services provided for the wider community but initially shown within the HRA must by law be charged on to the recipients. Charges made to non-tenants for such services are based on actual costs.

Other Rents and Charges

32. It is proposed to increase heating charges to tenants using communal boilers by 5.5%. This is estimated to increase income by £5,000 over 2008/09 levels.

33. Garage rents - It is recommended that garage rents are increased by 6.07% from £7.60 to £8.06 for the year. This is estimated to raise £11,000 in additional income.

34. Sewerage charges - It is proposed to increase sewerage charges in line with costs.

HRA Business Plan

35. The draft HRA Business Plan model projections produced in December 2007 indicate that, given the assumptions used, there will be a positive position up to 2011/12, though with a reducing balance.

36. The report also recommends that further work should be undertaken in regards to the stock condition survey, the review of subsidy payments and management and maintenance costs. It suggests that the Council faces a considerable challenge in the future and will need to think of corrective financial action to its HRA soon.

37. The budget estimates for the HRA are in line with the model projections in the Business Plan for 2008/09 and include provision for undertaking further work.

Communication and Consultation

38. The Tenants Forum was consulted on the rent increase for the 2009/10 budgets. The forum understood that the council had no option in the rent increase but was very opposed to the government's guidelines on rent increase considering the current economic climate. They reluctantly agreed for the council to apply a 6.07% rent increase. Concern was expressed that large rent increases would be needed in future years and that charges for Lifeline services might increase more than state pensions.

APPENDIX A

HOUSING REVENUE ACCOUNT	2007/08 ACTUAL £	2008/09 ORIGINAL £	2008/09 REVISED £	2009/10 ORIGINAL £
INCOME				
Dwelling Rents	(10,246,737)	(10,906,000)	(10,791,000)	(11,461,313)
Garage Rents	(195,780)	(197,900)	(195,700)	(207,579)
Other Rents etc	(7,227)	(5,900)	(5,300)	(5,592)
Charges for Services & Facilities	(473,668)	(463,170)	(462,570)	(488,370)
Contributions towards expenditure	(100,906)	(104,560)	(98,190)	(103,643)
	(11,024,319)	(11,677,530)	(11,552,760)	(12,266,497)
EXPENDITURE				
Housing Repairs	1,763,632	1,887,410	1,887,410	1,841,870
Supervision and Management	2,310,242	2,475,780	2,477,370	2,664,490
Rents, Rates & Other Property Charges	18,657	25,170	30,170	30,190
Negative Subsidy Transfer	4,487,571	5,160,000	5,160,000	5,469,113
Capital Charges				
Depreciation Dwellings	1,850,558	1,864,250	1,864,250	1,925,520
Depreciation Other Assets	242,279	231,510	251,880	251,880
Deferred Charges	0	40,000	0	0
Increase in Bad Debt Provision	45,320	31,500	45,000	0
	10,718,260	11,715,620	11,716,080	12,183,063
NET (INCOME)/EXPENDITURE SUB-TOTAL				
	(306,059)	38,090	163,320	(83,434)
HRA Share of Corporate and Democratic Core	267,000	267,000	267,000	267,000
HRA Share of Pension Deficit --GS and HK	240,953	103,050	103,050	103,050
NET OPERATING EXPENDITURE				
	201,894	408,140	533,370	286,616
Interest Receipts:				
HAPS Interest	(728)	(320)	(320)	(320)
Interest on Balances	(44,550)	(35,200)	(35,000)	(16,250)
Pension Interest and Return on Assets	(30,568)	0	0	0
DEFICIT ON HRA SERVICES				
	126,048	372,620	498,050	270,046
WORKING BALANCE				
Deficit for the year	126,048	372,620	498,050	270,046
Transfer to/(from) Major Repairs Reserve	(242,000)	(231,510)	(251,880)	(247,615)
Pension Fund Adjustments	(113,000)	0	0	0
Capital Expenditure Funded by HRA	455,000	0	0	0
Decrease in HRA Balance	226,048	141,110	246,170	22,431
Balance Brought Forward	(776,528)	(550,480)	(550,480)	(304,310)
Balance Carried Forward	(550,480)	(409,370)	(304,310)	(281,879)