

SLOUGH BOROUGH COUNCIL

REPORT TO: Overview & Scrutiny Committee **DATE:** 5th February 2009

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PART I **FOR CONSIDERATION**

HOUSING REVENUE ACCOUNT (HRA) BUDGET ADOPTION AND ANNUAL RENT SETTING 2009-2010

1 Purpose of Report

This report proposes the revision of the 2008-09 current year HRA budget estimates to take account of changes in the Government's funding regime which were announced after adoption last year, proposes a base budget for 2009-2010 and the annual rent and service charge rise to tenants as dictated in the government's subsidy determination.

2 Recommendation(s)/Proposed Action

2.1 That Scrutiny & Overview committee provide their comments and observations prior to the following recommendations being placed before Cabinet -

- (a) That the revised estimates for 2008/09 and the estimates for 2009/10 be approved. Para 5.1 – 5.10 refer
- (b) That the rent increase for 2009/10 be set according to the national rent restructuring formula, equivalent to an average increase of 6.32%. Para 5.11 to 5.12 refer
- (c) That heating, utility and ancillary charges are increased by 5%, the September RPI figure used in rent setting. Para 5.9 refers
- (d) That service charges are increased by 2.5% in accordance with budget estimates. Para 5.8 refers
- (e) That garage rents increase in accordance with adopted policy by 5%, the September RPI figure used in rent setting. Para 5.7 refers
- (f) That the growth items identified in paragraphs 5.20 to 5.22 amounting to £1,175,000 in 2009/10 approved.
- (g) That the management fee for People 1st (Slough) be set at £5,465,250 for 2009/10 with a further £100,000 set aside in the HRA as a provision for possible increased salary costs from the equal pay and job evaluation process. Para 5.6 refers
- (h) That the HRA Business Plan projections be approved as shown in Appendix 2.

3 **Community Strategy Priorities**

- **Celebrating Diversity, Enabling inclusion**
- **Adding years to Life and Life to years**
- **Being Safe, Feeling Safe**
- **A Cleaner, Greener place to live, Work and Play**
- **Prosperity for All**

By adopting a prudent medium term financial strategy for the Housing Revenue Account the Council and People 1st have created a business plan which sustains council housing for the foreseeable future. By reducing expenditure and reinvesting in areas of concern for tenants, residents and members alike, People 1st and the council's retained housing services can contribute to each of the community strategy priorities.

4 **Other Implications**

(a) Financial

The proposed HRA budget was prepared in accordance with CIPFA guidance and accounting best practice. Budget proposals will ensure balances are maintained at an appropriate level and adequate funding is available to deliver an effective housing service both directly and through the People 1st (Slough) ALMO, in accordance with the HRA Business Plan

(b) Risk Management

This report introduces new levels of rent, fees and service charges across the Housing Revenue Account in accordance with legislation, best practice and government guidance. Budgets have been constructed in accordance with CIPFA accounting rules and the medium term HRA business plan uses a nationally accredited business model to predict income and expenditure in future years.

Estimates of income particularly from shop and garage rents have been reviewed in the light of the current economic climate but estimates of key inflation indices over the next year may be inaccurate leading to unexpected budget pressures. However the HRA currently holds sufficient balances to manage such issues should they arise.

Longer term there is uncertainty regarding the future funding of council housing while the government undertakes a review of the whole subsidy regime. Results of this are likely to be announced as part of the Comprehensive Spending Review (CSR) in 2010.

(c) Human Rights Act and Other Legal Implications

There are no legal or human rights implications to this report.

(d) Race Relations Amendments Act Implications

This report relates to all tenants and leaseholders occupying current or former council homes. Rent fees and charges are set in accordance with government guidance and relate closely to each persons individual circumstances and usage. Where individuals are of limited means benefit advice, debt and welfare counselling is

available and accordingly the proposal will not disproportionately affect any section of the community as defined under the above legislation.

5 **Supporting Information**

HRA Budget Estimate 2008-09

- 5.1 The Housing Revenue Account (HRA) estimates have been revised on the basis of an analysis of expenditure and income to date and projections forward for the remainder of the year undertaken. The opening balances on the HRA as at 1 April 2008 stood at £5.4m this compares to an estimated surplus this time last year, when the budget was set of £3.2m. Additionally an in year surplus of £1.4m is projected for the current year 2008/09 compared to an estimated £0.5m. Annex 1 provides more details of where the variations have occurred.
- 5.2 The difference between the 2008/09 projections and the original estimates can be explained by the following issues:
- (a) The HRA has seen an increase in income from leaseholders due to the full year effect of changes in the charges for caretaking and cleaning introduced in 2007/08.
 - (b) Rental income from shops, garages and aerals is now closely managed by both the council and Colliers CRE resulting in greater income above the estimated levels used to set the 2007/08 and 2008/09 budgets
 - (c) Right to buy sales have continued to reduce and are at a much lower figure than that assumed in previous projections resulting in significant increases in rental income.
- 5.3 Members may recall that last year the final subsidy determination from CLG was not released until mid January 2008 and this meant that key information was not available until the very last minute, thereby significantly hampering the budget setting process.
- 5.4 The accounts also show that the management fee paid to People 1st (Slough) has been reduced by £587k. This is not a funding cut but rather reflects the fact that the company now receives income directly from Supporting People to cover the provision of the supported housing service rather than through the management fee.

Housing Revenue Account Base Budget 2009-2010

- 5.5 For the coming year, HRA expenditure has been updated for a pay award provision and other inflationary pressures. Provision has also been made for equal pay / job evaluation issues (excluding People 1st (Slough)). Provision had also been made for higher than RPI increases in energy costs compared to the current contracted prices. The housing repairs budget has been increased by 2.5% to allow for the inflationary increase to be applied in April 2008. In the current economic climate it is difficult to make an accurate estimate of inflation and this may need to be amended in a later report if it proves to be significantly different to the true figure.
- 5.6 In accordance with the management agreement the management fee payable to People 1st (Slough) for managing the stock on behalf of the council has been increased to reflect the increase in management allowance received in the subsidy determination. After the significant cuts which were imposed last year, this year sees a real increase of 4.88%.

- 5.7 While garage rents will be increased in line with council policy of the RPI figure used within the subsidy calculation (5%) an allowance has been made to reflect the likely downturn in the numbers of garages being rented through the economic downturn. Similarly estimated income from shop rents has not been inflated as we are likely to see an increase in void units within the commercial portfolio. That said, at the current time only three shops are currently void within the 86 units and of those, Colliers CRE expect to sign up a new tenant within the next month.
- 5.8 Tenant service charges have been assumed to increase in line with the estimates for costs and have therefore been increased by 2.5%. Service charges to tenants and leaseholders are constantly under review to align actual charges per block with the level of service received and therefore cost per block. Currently caretaker and cleaning routines are being reviewed in the light of customer feedback and once the revised charges are available consultation with tenants and leaseholders will be undertaken and any new charges implemented for tenants in 2010/11 in line with rent restructuring guidelines to enable protection on increases, if relevant, to be provided.
- 5.9 Currently £166k is recovered from tenants for heating costs. The estimate for 2009/10 for electricity and gas is £506k but this also includes communal areas. It is recommended that a review be undertaken similar to the cleaning charges where actual block usage of energy is identified and required charges to recover the costs is calculated. A future report will be produced for consideration on the level of charges to be made. It should be noted that currently the tenants receiving these charges are under paying for fuel use and therefore being subsidised by other tenants. In the mean time it is recommended that charges be increased by 5% in line with September RPI figure used for rent setting purposes.
- 5.10 In proposing the annual housing revenue account budget this year, the report is significantly briefer than in the past as along with other authorities, the council has received a favourable settlement and rather than identify cuts and efficiency savings this report can instead concentrate on new service provision and new investment to take account of backlogs in repair and maintenance requirements which occurred when past settlements failed to deliver sufficient funding to run an satisfactory service. This year the management and maintenance allowances have increased by 5.2% and 7.0% respectively. This is much higher than anticipated this time last year and is as a result of cost and crime indices changes as used by CLG in the formulae. This represents real additional cash into the housing service and this report goes on to identify how this funding will be utilised.

The 2009-1010 Annual Rent Increase

- 5.11 Since 2002/03 councils have been expected to increase rents in line with the government's rent restructuring policy. Each tenant has a target rent as calculated by the formula and annually the target rent is increased by $RPI + \frac{1}{2}\%$. The RPI figure used is the rate as at September and for 2009/10 this figure is 5%.
- 5.12 Therefore each tenant will have a rent increase matching the $RPI + \frac{1}{2}\%$ increase plus a proportion of the difference between this and the target rent. The incremental increase used is based on the target date for rent convergence. Until 2008/09 this stood at 2011/12 but moved to 2016/17 for the current year. This year to limit the scale of the formula based rent increases the government has put back its rent convergence date (the date when all council, ALMO and housing association rents

will be identical) to 2023/24, fifteen years time so that rents this year will rise by 1/15th of the difference rather than 1/8th.

- 5.13 By applying this formula the average rent rise across the stock would be 6.32%. This is the amount that the government expects the rent to increase by and it uses this figure in calculating the level of subsidy that the council is required to pay back to the treasury (currently around £7.5 million). Thus while the council can decide to set a rent at a lower increase than 6.32%, this would result in a real loss in income and budgets would need to be reduced accordingly.
- 5.14 Furthermore reducing rental income this year would not only result in a loss of income in 2009/10 but also in 2010/11 and indeed beyond this date until the difference can be caught up because in the end through the rent convergence policy tenants will be required to pay the higher figure at some point in time. With RPI likely to be very low or even negative by this time next year future rent rises will be reduced and the council will be unable to recover the 'lost' rent from a lower rent rise agreed in this year.
- 5.15 While considering setting lower rental increases it should be remembered that currently 57% of rental income is paid through the housing benefit system so any reduction in the rent increase will benefit the DWP and Treasury more than our tenants.
- 5.16 The Board of People 1st (Slough) when considering this report felt that with inflation currently at a lower rate than the 5% used in the rent restructuring formula and many tenants struggling with household bills that the rent increase should be capped at 4.99%. This was approved by a narrow vote in favour of the recommendation.
- 5.17 Officers have considered this proposal and should Cabinet wish to consider this option, they are advised that a rent increase of 4.99% would cost the HRA £338,000 in lost income in 2009/10 and £1,014,000 in total. Over the same period the rental payments saved by tenants would amount to £476,000 while the DWP would gain £578,000 over 4 years in reduced benefit payments.
- 5.18 While £476,000 sounds like a significant sum of money, over four years this would equate on average to less than 79p per week reduction in rent to those either on partial or no housing benefit and would do nothing at all for the poorest tenants whose rent is funded by the DWP. Every tenant would however see the significantly reduced levels of investment in new and enhanced levels of service.
- 5.19 In light of the fact that the HRA will suffer a loss on income in excess of the benefit to tenants it is recommend that the council implement the rent increase in line with the rent restructuring formula calculations i.e. an average rent increase of 6.32%. This will be in line with the vast majority of councils nationally and locally. However, it is recommended that the additional income raised over and above a 4.99% increase is ring-fenced to set up an environmental improvement fund as identified in paragraph 5.22 (g).

Service Growth Bids 2009-2010

- 5.20 The increase in management fee identified in paragraph 5.6 will allow a number of service development items for People 1st (Slough) to be undertaken. Following a star-chamber process the Board of People 1st have approved a number of funding bids based around the main themes of:

- (a) Improved tenant and resident participation
- (b) Improvement in service standards and working towards three stars at the next ALMO inspection
- (c) Dealing with ASB through better evidence gathering, use of professional witnesses and deployment of mobile CCTV cameras.

5.21 People 1st (Slough) is currently in the process of an equal pay and job evaluation process in line with the council. This is to ensure compliance with statutory regulations. There is likely to be an additional cost arising from this review. It is therefore recommended that a sum of £100,000 be set aside from the HRA to be paid to People 1st (Slough) in the event of additional cost arising in 2009/10. If costs should be lower than this then the residual amount will be added back to the HRA working balance. If cost should be higher then People 1st (Slough) will need to come back to the council to request further funding if required.

5.22 Additionally, the Assistant Director of Housing and the management team of People 1st (Slough) have jointly identified a number of service improvements within HRA budgets as follows:

Growth Bid	Value of investment
(a) The reinstatement of the resources available for the internal decoration scheme to elderly tenants.	£200,000 p.a. ongoing
(b) The reintroduction of an assisted gardening scheme for those tenants assessed to be unable to do the works themselves.	£20,000 p.a. ongoing
(c) Pre-Tenancy training for prospective tenants to inform and educate them regarding their obligations and levels of expected conduct as well as the services provided for them by People 1 st and the Council to enable tenants to maintain their tenancy in the longer term.	£20,000 initially in 2009 and then ongoing subject to pilot study.
(d) An asbestos survey to communal housing stock to be carried out in line with legislation and good practice	£75,000 in 2009
(e) In compliance with the changes in fire legislation, carry out risk assessments for all communal spaces within blocks of flats	£12,000 in 2009
(f) An additional visiting officer in the council's allocations team to undertake pre-approval home visits thereby speeding up the letting process and reducing void turn-round times.	£20,000 in 2009

<p>(g) The establishment of an Environmental Improvements Budget. This would be used to fund a number of known issues such as,</p> <ul style="list-style-type: none"> i. drainage, flash flooding and gully issues, ii. outstanding tree works to communal areas iii. provision of estate notice boards and signage, iv. resolution of parking issues through off street parking, v. investment in garage sites including construction of new garages in areas of demand, vi. and other grounds maintenance issues 	<p>£838,000 in 2009/10 and 2010/11.</p> <p>Then £200,000 p.a.</p>
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HRA Business Plan Projections

- 5.23 The HRA has been projected over 30 years in line with government guidance. However, due to the nature of housing subsidy and constant changes to the system, only the short to medium term can be treated with some degree of certainty. The projections should be looked at in light of the current national review of council house funding currently being undertaken by CLG.
- 5.24 The last HRA projections were showing a HRA in serious decline with in year deficits and declining balances. During the 2008/09 budget process a number of reductions in expenditure were made to ensure that the HRA was sustainable in the short to medium term. In addition it was identified that additional savings would be required in future years.
- 5.25 It can be seen from Annex 2 that the latest projections for the HRA are of a more healthy nature. In year surpluses (including interest earned) are now forecast for the next 7 years compared to deficits previously. In addition the level of balances exceeds that previously forecast due to a substantial under spend against budgets in 2007/08. There are a number of reasons for the rapid turn around in the HRA's projected fortunes as follows:
- a) The previous projections allowed for a pessimistic view on the increase in management and maintenance allowances which in effect fund actual expenditure. This was based on constant changes to the formulae and data feeding into the formulae which each year worked against Slough. However recently there has been more consistency in the process and a more realistic projection can be made.
 - b) Government changes to the calculation of rent used within the subsidy calculations resulted in more rent being kept by the authority than had been allowed for within the original projections.
 - c) In the 2008/09 subsidy determination CLG changed the way that compensation was made for the effect of rent increase limitations for tenants. The previous subsidy was stopped and no replacement was allowed for in the determination. This subsidy amounted to £450k in 2007/08. Subsequently it was announced that the subsidy would be reintroduced but a year in arrears. This was not allowed for in the previous projections.

- d) The HRA has seen an increase in income from leaseholders due to changes in the charges for caretaking and cleaning introduced in 2007/08. This had not been accounted for in the 2007/08 and 2008/09 HRA estimates.
- e) Right to buy sales have continued to reduce and are at a much lower figure than that assumed in previous projections.
- f) The savings made in 2007/08 and 2008/09 have also aided this improved position.

5.26 The recommendations above in paras 5.5 to 5.22 regarding the base budgets, growth items and guideline rent increase need to be modelled. Appendix 2 shows the effect of the above recommendations.

5.27 The HRA is projected to have moderate in year surplus until 2014/15 (including interest on balances) and an overall surplus until 2021/22 when balances are taken into account. In reality savings will be required from 2015/16 when in year deficits are projected to occur.

5.28 Although balances are considerably higher than the minimum required of £1.4m it is recommended that they be left at this level due to the high level of uncertainty that currently exists:

- a) Low levels of RPI inflation could lead to problems in setting the required rent levels in 2010/11 as many tenants could hit the RPI + ½% + £2 per week limit in effect giving a rent increase of only £2 per week when government have intimated that a higher increase will be made in guideline rents used for subsidy purposes. This lost income would be recompensed by CLG but a year in arrears.
- b) A national review is currently being undertaken that could easily have negative consequences for Slough as much as beneficial gains.
- c) The results of the equal pay / job evaluation process with People 1st (Slough) allowed for in the estimates could be insufficient and additional funding from the HRA may be required to cover back dated or future ongoing costs.

5.29 The Business Plan projections give the council a period of relative stability in the medium term with moderate in year surpluses and healthy balances. This should allow the council to deal with any unknown or unexpected challenges that may occur in the coming years. If anything of a catastrophic nature should occur the council will have a good level of reserves to deal with the problem or can reduce the commitment made to the environmental fund. It should also be noted that the majority of the People 1st (Slough) growth identified earlier is of a one off nature and is therefore non recurring.

5.30 One further risk is that while the reduction in right-to-buy sales has increased rental income, it has meant that the stock has stabilised in terms of its size but far greater levels of capital investment will be required as the decent homes programme will have to fund the improvement of an additional 250 homes from within a fixed budget. By 2012 this may mean that the HRA is required to contribute significant sums of revenue funding in the region of £2,000,000 to the capital programme in order to meet the governments targets.

6 **Comments of Other Committees**

The proposals contained within this report have been considered by the Finance Sub-committee and Management Board of People 1st who act as the Council's agents in relation to management of the HRA and their comments are contained within the body of the report.

7 **Conclusion**

Changes to the way that government funds council housing together with the challenging but timely savings targets adopted last year have meant that the HRA Business Plan is now sustainable into the medium term and has sufficient balances to allow significant new expenditure to clear historic backlogs of under investment.

8 **Appendices**

1 - HRA Budget 2008/09 and 2009/10

2 - HRA Business Plan Projections

9 **Background Papers**

'1' -

'2' -

	BUDGET 2008-09 £	Revised BUDGET 2008-09 £	BUDGET 2009-10 £
<u>INCOME</u>			
Dwellings Rents (net of Voids)	-25,472,840	-25,576,590	-27,090,540
Shops	-658,620	-630,930	-567,840
Garages	-517,740	-528,400	-499,340
Other Rents, Wayleaves & Income	-483,850	-459,180	-459,180
Tenant Service Charges	-1,142,150	-1,100,820	-1,128,340
Heating Charges	-133,350	-165,700	-174,810
Leaseholder Charges	-112,750	-845,000	-500,000
Supporting People	-595,000	-29,850	-29,850
Housing Defects Act Subsidy	-23,870	-8,960	0
	-29,140,170	-29,345,430	-30,449,900
<u>EXPENDITURE</u>			
Management Fee	5,760,350	5,172,910	5,465,350
Lettings	603,940	600,060	716,180
Hostels	128,350	126,160	129,510
Environmental / Grounds Maintenance	594,030	591,970	1,450,050
Utilities	395,100	409,180	522,550
Other Management General	1,316,680	1,317,590	1,128,160
Housing Repairs	5,546,000	5,546,000	5,904,660
Depreciation	4,738,000	4,721,790	4,841,380
Negative Housing Subsidy	8,680,020	7,823,430	7,528,840
Increase in Provision for Bad/Doubtful Debts	100,000	100,000	100,000
	27,862,470	26,409,090	27,786,680
<u>NET COST OF SERVICE</u>	-1,277,700	-2,936,340	-2,663,220
Capital Charges - Interest & Debt Management	87,900	206,400	670,400
Amortised Premiums & Discounts	1,372,270	1,371,270	1,372,270
Interest Receivable	-644,820	-18,880	-12,880
Expected Return on Pension Assets	0	-8,300	-8,300
<u>NET OPERATING INCOME / EXPENDITURE</u>	-462,350	-1,385,850	-641,730
Brought Forward Working Balance	3,186,000	5,354,000	6,953,850
Surplus / Deficit for year(-)	-462,350	-1,385,850	-641,730
Interest on Balances	-210,000	-214,000	-278,000
Balance C/Fwd	3,858,350	6,953,850	7,873,580

Note – the above figures include provision for a 6.3% average rent increase and all service development bids.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	2008.09	2009.10	2010.11	2011.12	2012.13	2013.14	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23
Dwelling rent income	-25,576	-27,091	-28,140	-29,712	-31,352	-33,062	-34,030	-35,028	-36,055	-37,110	-38,197	-39,315	-40,464	-41,646	-42,863
Service charges	-2,140	-1,831	-1,804	-1,804	-1,803	-1,803	-1,802	-1,801	-1,801	-1,800	-1,800	-1,799	-1,798	-1,798	-1,797
Non dwelling rents	-1,090	-1,027	-1,055	-1,084	-1,114	-1,145	-1,176	-1,208	-1,241	-1,275	-1,310	-1,346	-1,383	-1,421	-1,460
Housing Subsidy	7,816	7,521	8,283	8,977	11,302	12,523	13,154	13,691	14,247	14,822	15,431	16,059	16,708	17,377	18,068
Garages	-528	-499	-513	-527	-541	-556	-571	-587	-603	-620	-637	-655	-673	-692	-711
Income	-21,518	-22,927	-23,229	-24,150	-23,508	-24,043	-24,425	-24,933	-25,453	-25,983	-26,513	-27,056	-27,610	-28,180	-28,763
Management Fee	5,173	5,470	5,668	5,870	6,080	6,298	6,523	6,756	6,997	7,245	7,495	7,753	8,020	8,297	8,582
Retained HRA	3,037	3,946	3,987	3,499	3,630	3,766	3,907	4,054	4,206	4,364	4,528	4,698	4,874	5,057	5,247
Bad Debt Provision	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Repairs & Maintenance	5,546	5,905	6,100	6,328	6,566	6,812	7,067	7,332	7,607	7,892	8,188	8,495	8,814	9,145	9,487
Depreciation	4,722	4,841	4,960	5,081	5,205	5,331	5,461	5,594	5,730	5,869	6,012	6,158	6,307	6,460	6,617
Expenditure	18,578	20,262	20,814	20,879	21,581	22,306	23,058	23,836	24,640	25,470	26,323	27,205	28,115	29,058	30,034
Net Cost of Services	-2,940	-2,665	-2,415	-3,271	-1,927	-1,736	-1,367	-1,097	-812	-513	-189	149	505	879	1,271
Interest charges & DME	1,576	2,043	2,465	2,886	1,725	1,725	1,725	1,725	1,725	1,725	1,725	1,725	1,725	1,725	1,725
Interest income	-19	-13	-13	-13	-13	-13	-13	-13	-13	-13	-13	-13	-13	-13	-13
Operating income / expenditure	-1,383	-635	37	-398	-215	-24	345	615	900	1,199	1,523	1,861	2,217	2,591	2,983
(Surplus) / Deficit	-1,383	-635	37	-398	-215	-24	345	615	900	1,199	1,523	1,861	2,217	2,591	2,983
Reserve brought forward	5,354	6,952	7,865	8,142	8,866	9,436	9,837	9,886	9,666	9,153	8,320	7,131	5,555	3,561	1,112
Notional interest (enter)	-214	-278	-315	-326	-355	-377	-393	-395	-387	-366	-333	-285	-222	-142	-44
Reserve carried forward	6,952	7,865	8,142	8,866	9,436	9,837	9,886	9,666	9,153	8,320	7,131	5,555	3,561	1,112	-1,826