

Meeting: Executive

Portfolio Area: Housing

Date: 14th February 2007

HOUSING REVENUE ACCOUNT (HRA) BUDGET 2006/07 PROBABLE & 2007/08 ESTIMATES

KEY DECISION

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Attached SHL Report - SHL

1 PURPOSE

- 1.1 To propose the 2006/07 Probable and 2007/08 Estimate Budgets for the Housing Revenue Account.

2 RECOMMENDATION

That the following recommendations be made to Council: -

- 2.1 That the Executive proposes the Budget summarised at Appendix A in the attached report from Stevenage Homes Limited to be the Council's Housing Revenue Account Budget for 2007/08.
- 2.2 That the Executive proposes the Housing Revenue Account estimates for 2006/07 Probable showing a net deficit of £1,634,680, as detailed in Appendix A to the attached report from Stevenage Homes Limited.
- 2.3 That the Executive proposes the Housing Revenue Account 2007/08 Estimates showing a net deficit of £424,930, as detailed in Appendix A to the attached report from Stevenage Homes Limited.
- 2.4 That the Executive proposes that increases in ancillary fees and charges, with effect from 2nd April 2007, as detailed in Appendix C, to the attached report from Stevenage Homes Limited, be approved.
- 2.5 That the Executive proposes a Contingency Sum in the Budget and Policy Framework for 2007/08 of £500,000 for the HRA.
- 2.6 That an increase in the SHL Management Fee for 2006/07 by £22,000 to £7,669,000 be approved.
- 2.7 That the Executive proposes that the SHL Management Fee for 2007/08 be approved at £13,367,000.

- 2.8 That the Executive notes and accepts that the Council may, at its discretion, agree to vary the proposed HRA in the course of its consideration of that budget.

3 BACKGROUND

- 3.1 During 2006/07 the Council set up its Arms Length Management Organisation (ALMO) for housing. Stevenage Homes Limited (SHL) went live on 1st October 2006.
- 3.2 As previously reported, the overall management of the HRA has been delegated to SHL as detailed in the Management Agreement between the Council and SHL. The attached SHL report therefore proposes the HRA Budgets for 2006/07 Probables and 2007/08 Estimates.
- 3.3 The HRA rent setting proposal for 2007/08 were approved by Council on 31st January 2007.
- 3.4 The HRA Rent and Budget setting timetables have traditionally been aligned as they are logically interrelated. However, whilst the Council continues to follow the Government's 10 year Rent Restructuring Policy, which was introduced in 2002/03, it was agreed at December Executive that it would be practical for the HRA Budget setting process to follow a timetable later than that for Rent setting.
- 3.5 With the Council's Budget setting processes following on so closely after the recent formation of SHL, reporting the HRA Budget (incorporating the SHL management fee proposals) to the later timetable has afforded SHL and its new management team a better opportunity to effectively influence the HRA Budget process and determine the appropriate level at which to request its management fee.
- 3.6 The draft HRA Budget was therefore reported to Executive in January and was reviewed by Scrutiny Overview Committee (SOC) at its meeting on 29th January 2007. SOC are currently conducting a scrutiny review into the budget pressures on HRA Repairs & Maintenance (R&M) as referred to elsewhere in this report. Repairs & Maintenance represent a major part of the overall HRA Budget expenditure and it is anticipate that the SOC review could make a significant contribution to addressing this issue.
- 3.7 SHL have also consulted FOSTA (Federation of Stevenage Tenants Associations) on the draft HRA Budget and FOSTA were supportive of the proposals.
- 3.8 The Final HRA Budget proposals, following scrutiny and consultation, are therefore presented in this and the attached report from SHL, before final approval at Council on 28th February 2007. SHL's proposed Final HRA 2006/07 Probable and 2007/08 Estimate Budgets are detailed in Appendix A to the attached report and reflect only minor updates to the figures presented to the Executive in January. Individual budget lines within this Appendix show quite considerable variations this year between the Original, Probable and Estimates reflecting the delegation of many of the HRA Budgets into SHL's Management Fee, where they are then shown for half a year in the 2006/07 Probables and the full year in the 2007/08 Estimates under "Contract Services".

4 REASONS FOR RECOMMENDED COURSE OF ACTION

4.1 HRA 2006/07 Probable and 2007/08 Estimate Budgets

- 4.1.1 SHL's proposed Final HRA 2006/07 Probable and 2007/08 Estimate Budgets are detailed in the attached report. The Final proposals reflect only minor updating to the draft figures presented to Executive in January and as such SBC officers' continue to support and commend the HRA Budget proposals to the Executive.
- 4.1.2 In the Council's covering report to the January Executive, whilst supporting the SHL HRA Budget proposals officers brought a number of comments to members attention. For completeness these comments are reiterated in Appendix 1 to this report.
- 4.1.3 Contained within the HRA Budget is the SHL Management Fee that the Council pays from the HRA to SHL for its Management of the Housing Stock. SHL are proposing an increase of £22,000 to £7,669,000 for the 2006/07 Management Fee reflecting the fact that slightly more of the R&M expenditure is falling into the second half of the year (hence into the period managed by SHL) than was originally estimated. SHL are requesting a Management Fee for 2007/08 of £13,367,000. This is inline with the 2006/07 half year Management Fee from October 2006 to March 2007, adjusted for the full year and one-off items and increased for inflation. The proposed 2007/08 Fee has not, at this stage, been adjusted in respect of R&M pressures. SBC Officers consider these proposed Management Fees to be reasonable and commend them to the Executive.

5 IMPLICATIONS

As in the body of the report and as detailed in the Stevenage Homes Ltd report attached, which SBC officers' support and commend to Executive.

BACKGROUND DOCUMENTS – 2007/08 HRA Subsidy Determinations

APPENDICES -

Appendix 1 - SBC Officer's Comments

Stevenage Homes Ltd. attached report - "Housing Revenue Account (HRA) Budget Probables 2006/07 and Estimates 2007/08.

SBC Officer's Comments

In supporting the SHL HRA Budget proposals the following comments from SBC Officer's are drawn to Members attention :

- 1 A report to the Executive in October explained that the HRA Repairs and Maintenance (R&M) budgets were coming under considerable pressure and approved virements of £1,042,000 from Revenue Contributions to Capital Outlay (RCCO) to meet these pressures in 2006/07. SHL are analysing the underlying revenue R&M pressures and the issue is also subject to Scrutiny Overview Committee review. SHL's Budget proposals anticipate the HRA R&M spending to broadly continue at this increased level in 2007/08 and this can be funded in 2007/08 from the 53rd week Rent Income and cancellation of the 2007/08 RCCO. It is proposed that in 2007/08 this increase over the R&M base budget will be held in the HRA pending a full analysis of the underlying position being established. If this analysis indicates that it is then necessary to transfer the additional budget into the SHL Management Fee, SHL will be requested to show how this can be sustained into the future as part of their updated Medium Term Financial Forecast and balanced HRA Business Plan.
- 2 The increase in the 2006/07 overall Use of HRA Balances between the Original and Probable Estimates mainly reflects the carry forward of 2005/06 underspends and the R&M pressures, as referred to above, with these partly offset by other underspending budgets in the first half of the current financial year. The position is detailed in Appendix B to the SHL Report.
- 3 SHL point out that they are undertaking an efficiency savings review of the HRA to update the Medium Term Financial Plan. The Council will look to SHL to report back with this update, in due course. To the extent that efficiency savings are found within the delegated budgets this will require a review of the future level of the Management Fee, although it might be expected that SHL will need to reinvest savings in the short term in order to support the achievement of a two star inspection rating. SBC and SHL officers will also be in discussions and report to members, in due course, regarding an appropriate level of balances that SHL would expect to maintain in its Company Accounts. SHL have indicated that they will expect efficiencies to be achieved in the Service Level Agreements (SLA's) that SBC has with SHL. SBC and SHL officers will liaise accordingly, but it is not anticipate that any changes will impact on the SLA charges before 1st April 2008.