

Meeting: Executive / Council

Portfolio Area: Housing

Date: 30th January 2008

**HOUSING REVENUE ACCOUNT (HRA) RENT INCREASE AND BUDGET
SETTING PROPOSALS FOR 2008/09**

Lead Officer – Celia Twomey Ext.No. 2457
Author – Pauline Coletta Ext. No. 2933

1 PURPOSE

- 1.1 To recommend to Council the proposed rent increase for 2008/09 in respect of HRA dwellings.
- 1.2 To consider and recommend to Council the HRA 2007/08 Probable Estimates and 2008/09 Budget.

2 REASON FOR URGENCY

- 2.1 It is a statutory requirement for Council to formally approve the HRA Rents and Annual Budget. Given the timescales to process the Rent Increases and give adequate notice to tenants it is important that this is therefore considered at the Council meeting on 30th January. Because of delays in the publication of the HRA Subsidy Determinations it has not been possible to progress the report to the original Executive Timetable.

3 RECOMMENDATIONS

3.1 EXECUTIVE

That the following recommendations be made to Council:-

- 3.1.1 That the Executive proposes that the rents of HRA dwellings be increased, with effect from the week commencing 7 April 2008 by 4.4% and increased or decreased by the Rent Restructuring figure determined for each dwelling in accordance with the Government's Revised National Rent Restructuring Formula, subject to the Government's caps and limits applicable to each property.
- 3.1.2 That the Executive proposes that the Government's Cap on the combined increase in rent and un-pooled Service Charges for an individual property be applied.
- 3.1.3 That the Executive proposes the Budget summarised at Appendix A to be the Council's Housing Revenue Account Budget for 2008/09.

- 3.1.4 That the Executive Proposes the Housing Revenue Account estimates for 2007/08 Probables showing a net deficit of £893,370, as detailed in Appendix A.
- 3.1.5 That the Executive Proposes the Housing Revenue Account 2008/09 Estimates showing a net deficit of £1,279,390, as detailed in Appendix A.
- 3.1.6 That the Executive Proposes that the increases in ancillary fees and charges, with effect from 7 April 2008, as detailed in Appendix B, be approved
- 3.1.7 That the Executive Proposes that the contingency sum for 2008/09 of £400,000 for the HRA is approved in line with the Council's Budget and Policy Framework.

3.2 COUNCIL

That the Recommendations from Executive, detailed at 3.1 above, (as may be amended by Executive on 30th January 2008) be approved.

4. BACKGROUND

- 4.1 The overall management of the HRA has been delegated to Stevenage Homes Limited (SHL), as detailed in the Management Agreement between the Council and SHL. The proposals in this report therefore represent those presented by SHL.
- 4.2 The draft HRA Rent Setting and Budget Proposals for 2008/09 were presented to Executive on 19th December 2007 and were reviewed by Scrutiny Overview (SOC) Committee on 20th December 2007. SOC noted the difficult balance to be struck between the need for investment (to achieve a two star rating) and maintaining a balanced HRA.
- 4.3 SHL have consulted, Resident Associations, Tenants Groups and FOSTA (Federation of Stevenage Tenants Associations).
- 4.4 The Final HRA Rent Setting and Budget Report would traditionally be submitted to the January meeting of the Executive, but this has not been possible this year because of delays in the publication of the HRA Subsidy Determinations. The Government eventually published the Final Subsidy Determination on 15th January, with no changes to the draft determinations received in December.
- 4.5 The Final HRA Rent Setting and Budget proposals for 2008/09, following scrutiny and consultation, are therefore presented in this report and in the attached details presented by SHL. The proposals reflect only minor updates to the figures presented to Executive in December 2007.

5. REASONS FOR RECOMMENDED COURSE OF ACTION

5.1 HRA Rent Increase Proposals for 2008/09

5.1.1 The following proposals for increasing the rents of HRA dwellings, in line with the Government's Rent Restructuring policy, remain as reported to Executive in December. A summary of the proposed average rent increase is shown in the table below.

2007/08 average rent set at Government Constrained Rent	£69.68	
Inflationary Increase	£3.07	4.4%
Average Rent Restructuring Increase	<u>£0.72</u>	<u>1.03%</u>
Overall Increase	£3.79	5.43%
2008/09 Average Rent	£73.47	

5.1.2 The proposed Average Rent above has been set by continuing to applying the Government's Rent Restructuring formula.

5.1.3 In practice, individual rents would be calculated by applying 4.4% increase to the 2007/08 rent, plus or minus an individual convergence figure calculated in accordance with the Government's formula for the seventh year of Rent Restructuring. This has now been extended to 2016/2017, a further 5 years, but the Government have indicated that this date will be reviewed for future determinations as they are considering the possibility of wider reform of the HRA subsidy system.

5.1.4 As in previous years, the Government intends that increases and decreases in Rents and Service Charges of individual properties should continue to be capped at RPI+½% + or - £2.

5.2 2008/09 HRA Budget Setting Proposals

5.2.1 The proposed HRA 2007/08 Probable and 2008/09 Estimate Budgets are detailed at Appendix A and summarised as follows:-

<u>Summary of HRA Budget</u>	Original Estimate 2007/08 £	Probable Estimate 2007/08 £	Original Estimate 2008/09 £
Balance B / Fwd (1 st April)	(2,442,440)	(2,847,150)	(1,953,780)
Use of Balances in the Year	424,930	893,370	1,279,390
Balance C / Fwd (31 st March)	(2,017,510)	(1,953,780)	(674,390)

5.2.2 The Final Budget figures reflect only minor changes from the position reported to the Executive in December. In that report it was pointed out to members that the level of balances are budgeted to reduce over the period due to resources going into the

Short Steep Climb Programme (in order to seek to achieve the two star rating) and that the estimated balances at 31st March 2009 assume that SHL will achieve its ambitious efficiency targets.

- 5.2.3 It is a statutory requirement for the Council to set a budget so that on the best assumptions and best estimates available, the HRA will not go into deficit. The sustainability of the HRA is essential and the Strategic Director (Resources) as the Council's Chief Finance Officer has determined that a prudent minimum working balance of £500,000 should be maintained for the HRA.
- 5.2.4 The difficult balance to be struck between the need for investment (to achieve the two star rating) and maintaining a balanced HRA has been stressed before. The changes to the HRA Subsidy Determination in 2008/09 are likely to have a continuing negative impact on the HRA and, therefore, there could be a risk that unplanned circumstances could put increasing pressure on HRA. To assist in achieving the challenging efficiency targets, SHL have recently appointed an experienced VFM Accountant. The Council will also continue to robustly monitor the HRA financial position and the achievement of the efficiency targets and the Strategy Director (Resources) will provide an update at the meeting of SHL's latest Medium Term Financial Forecast projections for the HRA.
- 5.2.5 SHL Management Fee –The report to Executive in December proposed that SHL's Management be proposed subject to them reviewing their budgets. Pending finalisation of the details of the allocation of proposed efficiency savings between the HRA budgets and SHL's accounts it is not possible to determine, at this stage, an exact figure to propose for the 2008/09 Management Fee. It is therefore intended that SHL will submit their formal Management Fee request to the February or March 2008 Executives when these details have been determined.
- 5.2.6 Appendix B details increases for 2008/09 in respect of a number of Ancillary Fees and Charges which have been proposed by SHL and are recommended for approval.
- 5.2.7 Contingency Sum within the Budget and Policy Framework – A sum of £500,000 has been maintained in previous years, as the contingency that Executive could allocate as supplementary estimates without further reference to Council. As the level of the HRA balances reduce and the need to contain future budget pressures becomes paramount it is considered that the Contingency Sum ought to be reduced. A sum of £400,000 is, therefore, proposed for 2008/09.

6. IMPLICATIONS

6.1 Financial Implications

- 6.1.1 The report is financial in nature and the details are contained in the body of the report and appendices.

6.2 Legal Implications

- 6.2.1 None specific.

BACKGROUND

2008/09 HRA Subsidy Determination

APPENDICES

- Appendix A - Housing Revenue Account 2008/09 Estimates
- Appendix B - Housing Revenue Account Ancillary Fees & Charges 2008/09