

Meeting: COUNCIL

Agenda Item:

Portfolio Area: Resources

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Date: 28 January 2009

**HOUSING REVENUE ACCOUNT (HRA) RENT INCREASE AND BUDGET
SETTING PROPOSALS FOR 2009/10**

(Finance)

KEY DECISION

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Reason for Urgency

It is a statutory requirement for the Executive and Council to formally approve the HRA Rents and Annual Budget. Given the time-scale to process the rent increases and give adequate notice to tenants, it is important that this is therefore considered at the Executive meeting on 21 January 2009.

1 PURPOSE

- 1.1 To consider the proposed rent increase for 2009/10 in respect of HRA dwellings.
- 1.2 To consider the 2008/09 projected Budget and 2009/10 HRA Estimates including the SHL Management Fee increase of 5%.
- 1.3 To consider the 2009/10 Short Steep Climb Programme.

2 RECOMMENDATIONS

- 2.1 To recommend to Council the Projected 2008/09 and the 2009/10 HRA Budget a net deficit of £1,295,080 and £1,046,870 respectively, with the following amendments;
 - a. The efficiencies of £290,000 identified by Stevenage Homes Limited(SHL) are deducted from the efficiency target and taken from the 2009/10 Management Fee of £14,370,010 (see SHL report Appendix G).
 - b. The surplus of £250,000 identified by SHL as being returned to the HRA, is

deducted from the the efficiency target and taken from the 2009/10 Management Fee of £14,370,010 (see SHL report Appendix G).

- c. That a further £234,000 of surpluses be returned to the HRA by SHL and deducted from the efficiency target in the HRA and taken from the 2009/10 Management Fee of £14,370,010.
- d. That SHL continue work to identify efficiency savings to fund any future HRA budget shortfalls and report back to the Executive at a later date.
- e. The increase from 8% to 10% in the HRA Capital Programme Management Fee of £135,000 is noted and final approval of the Fee be delegated to the Portfolio holder's for Resources and Housing.
- f. That the Short Steep Climb Programme of £343,000, (see SHL report Appendix F) be noted and final approval of the programme be delegated to the Portfolio holder's for Resources and Housing.
- g. That a 2009/10 Management Fee of £13,118,010 be approved which excludes the efficiencies and return of surpluses to the HRA, the Short Steep Climb Programme and the HRA capital programme fee increase.
- h. That delegated authority be given to Strategic Director responsible for Housing to agree the Delivery Plan 2009-2012, in consultation with the Leader of the Council and the Portfolio Holder for Housing.

2.2 That the following draft proposals, as detailed in the attached report from SHL, be considered for recommendation to Council on 28 January 2009 as amended in paragraph 2.1 of the report:

- a. That the rents of HRA dwellings be increased, with effect from the week commencing 6 April 2009 by 5.5% 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.
- b. The Government's Cap on the combined increase in rent and un-pooled Service Charges for an individual property be applied.
- c. That the increases in ancillary fees and charges, with effect from 6 April 2009, as detailed in Appendix E, be approved.
- d. That a contingency sum for 2009/10 of £250,000 for the HRA is approved in line with the Council's Budget and Policy Framework.
- e. That the proposed Management Fee for 2009/10 of £14,370,010 be approved.
- f. The efficiencies of £415,000, return of surpluses of £250,000 be approved, totalling £665,000.
- g. That the Short Steep Climb and the Capital Management Fee are approved.
- h. That the Draft 2008/09 Projected net deficit of £1,279,390 and 2009/10 HRA Estimated net deficit of £1,046,870, (as detailed in Appendix A) be approved.

3 BACKGROUND

3.1 The draft HRA Rent Setting and Budget Proposals for 2009/10 were presented to Executive on 17 December 2008 and were reviewed by Scrutiny Overview (SOC) Committee on 18 December 2008.

3.2 SHL have consulted Resident Associations, Tenants Groups and FOSTA

(Federation of Stevenage Tenants Associations).

3.3 The final HRA housing determination was received on the 18th December and is attached at Appendix B of the SHL report. The total subsidy withdrawal for Stevenage's HRA is some £20.4Million in 2009/10. The final determination did not address the issue concerning the calculation of interest on receipts, which Members were made aware of in the December Executive report. The DCLG have recognised this has an adverse impact on a number of Authorities and intends to write to Local Authorities in January. No assumptions have been made in the 2009/10 HRA estimates for any special determination relating to interest on receipts.

4.1 HRA Rent Increase Proposals for 2009/10

4.1.1 The HRA rent increase proposals remain unchanged from those reported at the December Executive and are an average increase of 5.5% plus or minus an average rent restructuring figure of 0.56%, giving an overall increase of 6.06%

4.1.2 The proposals for increasing the rents of HRA dwellings, in line with the Government's Rent Restructuring policy, are detailed in the attached report from Stevenage Homes Ltd, which SBC officers support and recommend to Executive and Council. A summary of the proposed average rent increase is shown in the table below:

2008/09 average rent set at Government Constrained Rent	£73.47
add: Inflationary increase	£4.04 5.5%
add: Average Rent Restructuring Increase	£0.41 0.56%
Overall Increase	£4.45 6.06%
2009/10 Average Rent	£77.92

4.2 2009/10 HRA Budget Setting Proposals

4.2.1 The HRA 2008/09 Projected and 2009/10 Estimate Budgets are included at Appendix A of the attached report from SHL. These include an increase to the Management Fee of 5%.

4.2.2 The projected 2008/09 net expenditure of £1,295,080 is £86,700 lower than that reported at the December Executive. This is a result of changes to the audited 2007/08 HRA subsidy claim.

4.2.3 The draft 2009/10 estimates presented to the Council included an efficiency savings target of £1,020,000, which is more than the anticipated year end balances on the HRA of £741,000 and would not constitute a balanced HRA budget. The risk of not achieving the efficiencies would mean a deficit year end position on the HRA.

4.2.4 The base budget position on the HRA including the efficiency target of £1,020,000 (as detailed in Appendix A of the SHL report) is summarised as follows:-

Summary of HRA Base	Original Estimate	Projected Estimate	Original Estimate
Budget Position	2008/09	2008/09	2009/10
	£	£	£
Balance Brought Forward - (1 April)	(1,953,780)	(3,083,250)	(1,788,170)
Use of Balances in the Year	1,279,390	1,295,080	1,046,870
Balance Carried Forward - 31 March	(674,390)	(1,788,170)	(741,300)

4.2.5 SHL have reviewed their budgets and that of the HRA , and have identified potential savings of £655,000, which are detailed in Appendix G of the SHL report. Officers have reviewed the savings and have identified that £290,000 savings that can be deducted from SHL's 2009/10 Management Fee. The potential saving on temporary accommodation identified in Appendix G requires further work by SHL and SBC officers and has been excluded from the recommended savings. The SBC central costs savings have yet to be identified and have also been excluded. The return of surpluses has been excluded as they are dealt with in paragraph 4.2.6 below. Of the £290,000 efficiency savings, £165,000 are on-going and will be permanently removed from SHL's Management Fee. These changes can be summarised as follows:-

Efficiencies (appendix G)	£
	665,000
excluding:	
SHL surplus returned	(250,000)
Temporary Accommodation	(950,000)
SBC central Costs	(75,000) (375,000)
Total	290,000

4.2.6 SHL have also identified £250,000 of company surpluses to be returned to the HRA , this would leave SHL with retained reserves as at 31 March 2010 of £484,790. However, due to the level of SHL reserves and the minimum level of HRA balances it is officer's recommendation that a further £234,000 of surpluses is returned to the HRA to leave an efficiency target within the HRA of £246,000. The effect on SHL reserves is shown below.

SHL Accounts	Budget	Forecast	Budget
	2008/09	2008/09	2009/10
Brought Forward	(1,830,000)	(1,830,000)	(957,700)
Use of balances	563,460	622,300	222,910
Return of surplus to HRA	0	250,000	250,000
Additional return of surplus			234,000
Carried Forward	(1,266,540)	(957,700)	(250,790)

The return of surpluses are a one off saving to the HRA and further work by SHL is required on-going to find efficiencies that can be removed from the HRA base budget. This is particularly important as SHL have reported in year deficit positions

for both the 2008/09 and 2009/10.

4.2.7 The revised saving target is also detailed in the table below:-

HRA Efficiency Target	£
Original Target	1,020,000
Less:	
Efficiencies identified by SHL (paragraph 4.2.5)	290,000
Return of surplus identified by SHL	250,000
Additional return of surplus	234,000
Revised HRA efficiency target	246,000

The January bank of England rate cut of 0.5% puts further pressure on the HRA and subject to the DCLG giving a special determination would reduce the HRA reserves by a further £159,000. This is not included within the HRA estimates and would require an increase in the revised HRA efficiency target of £246,000.

4.2.8 **SHL Delivery Plan** -SHL is required to agree its Delivery Plan annually with the Council under the terms of the Management Agreement between the two organisations. Stevenage Homes' Delivery Plan is the company's primary business planning vehicle and the resource needs identified within it are expected to be met from the Management Fee and the approved HRA Capital Programme.

The Delivery Plan is currently being revised, taking account of progress made in the current year and the actions which will be required to meet SHL's strategic objectives going forward into 2009/10 and beyond. The strategic objectives remain unchanged and are as follows:

- To provide value for money services that focus on customer needs
- To be a learning organisation which encourages staff to do their best and achieve their potential
- To involve customers in all that we do
- To help develop communities that people are proud of
- To achieve the Decent Homes Standard
- To find new business opportunities and put income back into services

Key priorities for 2009/10 will be:

- Implementing the Asset Management Strategy
- Implementing the Sheltered Housing Review
- Improving services and satisfaction levels for leaseholders
- Improving residents' satisfaction that SH is taking their views into account
- Maintaining and building on improved performance in repairs
- Future planning and joint working initiatives for aids and adaptations
- Comprehensive performance and satisfaction monitoring for void properties
- Meeting ambitious targets in the Value for Money and Diversity Strategies
- Developing the organisation's people through personal development promoting the business' objectives
- Further reducing sickness absence

The Delivery Plan 2009-12 will be finalised in February to ensure that it is in place for the new financial year. It is recommended that delegated authority be given to

Celia Twomey, Strategic Director, to agree the final document in consultation with the Leader of the Council and the Portfolio Holder for Housing.

- 4.2.9 **Management Fee** - SHL have requested a £14,370,010 Management Fee for 2009/10, this currently does not include the efficiency savings and return of surpluses identified in paragraphs 4.2.5 to 4.2.6. If Members agree SBC Officers proposed amendment , the revised Management Fee of £13,596,010 is detailed in the table below:

Management Fee 2009/10	£
2008/09 Management Fee (excluding 2008/09 efficiency Targets)	13,871,530
Less: 2008/09 Short Steep Climb Programme	620,000
Add: 2009/10 Increase	575,480
Add: 2009/10 Growth proposals	200,000
Add 2009/10 Short Steep Climb	343,000
Total 2009/10 Management Fee	14,370,010
Less efficiencies identified (paragraph 4.2.5)	290,000
Less return of surpluses to HRA	484,000
Total Revised Management Fee	13,596,010

2009/10 Management Fee to SHL includes an allowance for increasing SHL Capital Programme Management Fee from 8% to 10% on capital projects an increase of £135,000. Under Financial Reporting standard FRS 15, fees can only be charged to capital that relate to actual staff time spent on either bring the asset into use, or enhancing the asset in line with the definition of capital expenditure. SHL and SBC officers are currently reviewing the new calculation.

SHL have also to complete the 2009/10 HRA capital programme (to be approved at the February Council) and until this has been finalised and SHL can demonstrate that a 10% management fee can be subsumed within the programme, officers would recommend that the increase of £135,000 is not approved by Members, but approved under delegated authority by the Portfolio holder's for Resources and Housing.

- 4.2.10 **Housing subsidy Determination** - The impact of the subsidy determination in relation to interest income has had an adverse impact on the HRA totalling £965,490. SHL has made presentation to the DCLG concerning this issue and the DCLG will be advising Council's of the outcome of this lobbying week commencing 11 January 2009.
- 4.2.11 The 2008/09 **repairs and maintenance budget** includes a contingency of £461,000, this was included within the HRA to allow sufficient funds to be available to fund the responsive repairs required. SHL have indicated that they require the additional fee, which reduces to £231,000 in 2009/10. This is not included in the revised Management Fee shown in paragraph 4.2.8.
- 4.2.12 **The Short Steep Climb Programme** of £620,000 for 2008/09 has been updated as a result of the mock inspection and is forecasted to be spent and delivered. The 2009/10 programme totals £343,000. SHL has identified savings of £75,000 that

can be taken from this budget and the short Steep Climb Programme will require delegated authority for approval once the revised programme has been completed by SHL.

4.3 Chief Finance Officer Commentary

- 4.3.1 The HRA Medium Term Financial Strategy (MTFS) projections have fluctuated significantly since the last update to Members, primarily as a result of the 2009/10 HRA subsidy determination and the reduction in interest rates on investments.

SHL have made representations to the DCLG concerning the subsidy determination, and have requested that a special determination be considered. A decision is expected soon; however, as there is no guarantee that an approval will be given, the SBC Strategic Director (Resources) has determined not to make a provision within the HRA budget.

- 4.3.2 Members will recall that the DCLG are currently undertaking a review of Council Housing Finance. The review is due to report to Ministers in spring 2009, with implementation of any changes to follow the next Comprehensive Spending Review i.e.. 2011/12. To retain stability over the next two years it is likely that the formulae and definitions used in the 2009/10 determination will remain unchanged for 2010/11. This should provide some certainty to SHL's updated HRA forecasts.

- 4.3.3 The ongoing position of HRA MTFS remains a cause for concern, with the level of balances now at a minimum level considered prudent. In addition, a significant number of the savings put forward for 2009/10 are one off's, thereby leaving an ongoing pressure on the HRA.

Members will recall that contained within the draft HRA 2009/10 budget presented to the Executive in December 2008, was an unidentified efficiency target of £500,000. Due to further pressures being identified since then, the SBC Strategic Director (Resources) has made arrangements for SHL surpluses totalling £484,000 to be returned to the HRA in two tranches (£250,000 already agreed by the SHL Board, and £234,000 following a review of balances). This will leave a net HRA efficiency target of £246,000.

Due to the level of variations currently being experienced within the HRA, the SBC Strategic Director (Resources) will be formally requesting that an updated HRA MTFS and progress report on SHL's achievement of their efficiency programme be presented to the July 2009 Executive.

5 IMPLICATIONS

5.1 Financial Implications

- 5.1.1 As in the body of the report and as detailed in the Stevenage Homes Ltd report attached.

5.2 Legal Implications

- 5.2.1 None identified at this time.

BACKGROUND PAPERS

2009/10 HRA Subsidy Determination.

APPENDICES

Stevenage Homes Ltd attached Report - Housing Revenue Account (HRA) Rent Increase Proposals for 2009/10 and Budget Projections 2008/09 and Estimate 2009/10.

Appendix A - Housing Revenue Account 2009/10 Estimates

Appendix B - Final HRA Subsidy Determination 2009/10

Appendix C - HRA Medium Term Financial Strategy

Appendix D - Analysis of use of Balances

Appendix E - Housing Revenue Account Charges 2009/10 - Support Housing

Appendix F - Short Steep Climb 2009/10

Appendix G - SHL Efficiency Savings 2009/10