**COMMUNITY COMMISSION**
**20 JANUARY 2009**

# ITEM 9

DERBY CITY COUNCIL

Report of the Corporate Director – Corporate and Adult Services

## HRA Business Plan and Budget 2009/10 - Consultation

## RECOMMENDATION

1. To ask for the Commission's views on the consultation document on the Housing Revenue Account, HRA, Business Plan and Budget 2009/10, attached at Appendix 2.

## REASONS FOR RECOMMENDATION

2. The Council consults with Derby Homes, tenants, and the Community Commission on its HRA budget plan update each year.

## SUPPORTING INFORMATION

3.1 The consultation document sets out in detail the position facing the HRA in the next year and for a thirty year forecast period. The strategy remains to use the additional funding that the HRA has in the short term to achieve two strategic goals: stability in the HRA on the loss of additional funding in 2012 and the provision of the estates pride programme of £15m. The key issue is the extent to which the overall funding can be relied upon to achieve these goals, and the conclusion drawn is that whilst the plan is viable as presented the assumptions made will need to be monitored closely as they are critical in the long term. They will depend on the outcome of the Government review of Council Housing Finance, due to report next year.

3.2 The timetable for consultation is:

1 December - HRA Strategic Working Party
22 December onwards – Derby Homes Senior Management
20 January – Community Commission
26 January – DACP
17 February – Cabinet meeting

3.2 It should be noted that the consultation document is drafted on the basis of the draft subsidy determination issued at the end of October. The final determination was received late December but there are no material changes to the figures.

## OTHER OPTIONS CONSIDERED

4. Other options to the existing strategy could place the longer term future of the HRA's finances at further increased risk if substantial additional expenditure was committed.

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| **For more information contact:** | Officer: David Enticott Tel: 255318 email: David.Enticott@derby.gov.uk |
| **Background papers:** | Draft determination November 07 |
| **List of appendices:** | Appendix 1 – Implications<br>Appendix 2 – Consultation Document |

## IMPLICATIONS

### Financial

1. Set out in the report.

### Legal

2. The Council is required to set a budget for its Housing Revenue Account that balances and that charges costs appropriately to either the HRA or to the General Fund.

### Personnel

3. None directly.

### Equalities impact

4. Many of the Council's tenants belong to the Council's equality target groups.

### Corporate objectives and priorities for change

5. The objectives of **making us proud of our neighbourhoods, leading Derby towards a better environment and giving excellent services and value for money** are all enhanced by the improvements in council house standards as a result of Decent Homes, and by any improvements possible through the Estates Pride programme.

DERBY CITY COUNCIL

# Consultation Document

## HRA Business Plan and Budget 2009/2010

**SUMMARY**

1.1 The HRA has a long term planning framework, with a three-year budget supplemented by a thirty-year business plan, known as the HRA Business Plan, or HRABP

1.2 The overall position of the HRA remains robust in the short term as a result of additional funding agreed by the government for Round 1 ALMOs until 2011. Once this additional funding is lost, a severe loss of income is expected.

1.3 The strategy has therefore been to utilise the additional ALMO funding to support a £15m programme called Estates Pride, supporting a mix of revenue and capital items. This funding will cease in 2010/11 – the last year of the ALMO funding bonus.

1.4 The proposals contained in the report include the continuation of that policy despite a worsening financial position for the HRA in the medium to longer term.

1.5 The government has instituted a long term review of the HRA which will report next year and which could have a very considerable impact on the financial position of the HRA. As a result, the meaning of longer term forecasts for the HRA is somewhat diminished until this review concludes.

1.6 In the longer term, the HRA faces some serious financial pressure as a result of anticipated gradual withdrawal of HRA subsidy from the current positive amount to a large contribution to the Treasury if the system is not reformed with a positive outcome for the HRA. A range of outcomes are possible which makes it potentially unwise to change course in the short term without understanding the longer term implications of the review.

1.7 As a result, it is not proposed to change the business plan significantly despite a worsening overall financial position, as the HRA can sustain moderate losses in the short term while awaiting the outcome of the review. If the review is not favourable then action to reduce costs in the future might be necessary in the next few years.

## Supporting Information

2.1 The Housing Revenue Account, HRA, remains financially robust in the short term but faces some significant uncertainties going forward. The recent draft subsidy determinations have added to these uncertainties and as a result the current HRA business plan should be viewed cautiously.

### 2008/2009 position

2.2 The previous business plan approved last year anticipated that the HRA expenditure would just exceed income by around £0.3m but that interest earned on balances would turn this into a small surplus of a similar size. This remains the expected position for 2008/09.

2.3 The longer term position has deteriorated for reasons set out below. While it would appear necessary to reduce spending over the next few years in order to rebalance the longer term plan, it is proposed that any such action should be postponed until after the HRA review, as to reduce services at this point, should the review be favourable could be seen as unnecessary within a year or so. To retain a fully funded 30 year plan would require reductions of around £0.4m to £0.5m on the current plans, as well as confirmation of a reduction in overall capital funding relating to the loss of government supported borrowing, SCER, of £1m a year.

## 3. Future planning

3.1 The HRA budget has to be balanced each financial year, and the Council has to plan for the HRA over a period of thirty years. The proposed HRABP for the next thirty years is set out at Appendix 2. A more detailed budget for the HRA for next year is set out at Appendix 3. As stated in 2.3 above, this will not be possible in the short term. The plan as published would still remain in credit over the whole period, but balances at the end of the period would be much smaller than they are now and with an ongoing yearly deficit.

## 4. Previous plan

4.1 In the previous plan, key assumptions were made about rent levels, capital costs and funding, and housing subsidy levels.

- **Rents**: it was assumed that the government would manage to complete restructuring of rents by the end of 2016/17 as suggested by them last year. The Council resolved last year to attempt to continue to complete restructuring by 2011/12 with the support of tenants in the consultation process.

- **Capital:** it was assumed that the Estates Pride programme would be contained within the £15m set aside for the programme, and that thereafter costs could be contained within funding levels made available by the government through the Major Repairs Allowance, MRA, albeit supplemented until 2010/11 by £750,000 a year from HRA balances.

- **Housing Subsidy:** it was assumed that MMAs would continue to increase in real terms by 0.2% a year until 2016/17, and by 0.4% a year thereafter.

**Review of key assumptions**

**Rents**

4.2 This year's subsidy determination has set out that guideline rents will increase by 6.2% in 2009/10 and by 6.1% in 2010/11. Actual rents are likely to increase by similar amounts. A separate consultation is taking place on a proposed 5.95% increase in average rents for 2009/10. At the current rate of inflation of 5.0% for September 2008, used to set rents for next year, this would imply convergence would take until 2024/25 to complete.

4.3 The government's proposals for the HRA have again been drafted for one year only. While the government has been clear that guideline rents will increase by 6.1% next year, it is unclear at this point what the convergence point will be, although it is expected that – as inflation is likely to be much lower next year – that a 6.1% increase in guideline rents will result in a considerable move towards convergence and a consequent reduction in the time it might take to reach it. The government give the example that 3% inflation could reduce the convergence point to 2013/14.

4.4 The key point is that rents remain 10% below the target rent and that this gap will need to be closed eventually in order to sustain the plan.

## 5. Capital

5.1 One of the bigger risks in the budget remains the ability to manage to maintain the existing stock within the anticipated funding from the Major Repairs Allowance, MRA, and the existing repairs account. The loss of Supported Capital Expenditure (Revenue) or borrowing approvals of £1m this year has been a major blow to the longer term sustainability of the capital programme as this had previously been used to fund adaptations to homes for those requiring this investment.

5.2 The HRA plan continues to assume that funding will be made available from reserves to maintain adaptations, but this funding will run out after 2010/11. The plan as drafted does not include any spending on this beyond that date. When this is added to the £0.5m deficit for the longer term mentioned in 2.3 above, the HRA business plan really requires an additional £1m a year to stay where it is under the current rules. As before, this level of spending will be maintained while the HRA review is being considered in order not to pre judge the outcome. There is, however, serious pressure building up as a consequence.

5.3 In the longer term, maintenance of the decent homes standard will become difficult in some homes without increased funding. Last year's report indicated a deficit of around £200m in the business plan if adequate funding for the maintenance of a good standard was included. This position has not materially changed, and so the longer term issues therefore remain serious.

## 6. Estates Pride

6.1 The Estates Pride programme is revenue funded by the HRA and can therefore be used on either revenue or capital. It can be used in a completely flexible manner, with no time, revenue or capital constraints. This ability to be used flexibly has been particularly helpful when considering external matched funding bids which are often set against very tight timescales and where it is normally difficult to find the funds to allow the matched funding to be offered, thus attracting the grant.

6.2 Consideration needs to be given to the exit strategy from the programme – particularly those additional services funded by the programme. These include Enthusiasm's youth projects and neighbourhood working programmes.

6.3

| **Estates Pride** | Latest Approved Budget | Revised Budget |
|---|---|---|
| **Already Committed** | £000 | £000 |
| **Five year revenue programmes (total committed over five years)** | | |
| Neighbourhood working / Youth Inclusion | 3,173 | 3,173 |
| **One off issues:** | | |
| Street Lighting Contribution | 975 | 975 |
| Contributions to capital schemes | 6,856 | 6,856 |
| **Total commitment at this point** | **11,004** | **11,004** |
| Funding available | 15,000 | 15,000 |
| Suggested consultation for the future: | **3,996** | **3,996** |
| Possible Revenue projects extension? | 1,700 | 3,659 |
| Possible Balance for Capital / one off projects? | 2,296 | 337 |
| Total | **15,000** | **15,000** |
| Total projected capital | 9,385 | 10,748 |
| Total projected revenue | 5,615 | 4,252 |

## 7 Housing Subsidy

7.1 The future track of housing subsidy remains that it will continue to worsen each year. The national HRA has now moved into surplus on all measures, and if current policies are maintained, will move into greater surplus each year, as rents now exceed all forms of spending within the national HRA. Derby's own subsidy remains a positive amount for now, but will become negative in 2010/11 if the Major repairs allowance, MRA, is excluded. It is currently expected that it will take until around 2016/17 before subsidy included MRA becomes negative. At that point we would be paying into the national pot overall.

7.2 Once rents have converged with RSL rents at some point, current expectations are that rents will continue to increase in line with RSL rents – that is at 0.5% above the rate of inflation. This gives the government more resources than it costs to increase the Management and Maintenance Allowances, MMAs, and the Major Repairs Allowance, MRA in line with inflation. During rent restructuring, the government has been recycling an element of these additional resources back into MMAs to allow some limited real terms growth in funding. Unfortunately, this level of 'rebasing' as it is known has been reduced further yet again to only 0.1% this year.

7.2 Once rent restructuring is complete, the government's policy appears to be that no further rebasing will take place. The current plan in Appendix 2 is set on the basis that post rent restructuring, there will continue to be some rebasing of around 0.4% a year, which should be affordable for the government given rent increases in real terms of 0.5% a year. Should this not take place, then the position would be considerably worse than illustrated. If this scenario came about, then further efficiencies would be required at some point in the future before the HRA goes into significant deficit. When this is taken along with the risks already outlined, the HRA is facing a very uncertain medium to longer term future.

## 8 **Derby Homes' management fee**

8.1 The basic principles of setting Derby Homes' management fee remain the same as previously agreed, and involve an increase for inflation of 3% and reductions relating to the number of homes no longer managed by Derby Homes, and the ending of a number of older leases.

8.2 The fee for 2009/2010 includes a one-off contribution towards the Stock Option Appraisal agreed by the HRA strategic working party.

8.3 Given the worsening outlook and the existing pressures, no additional amounts are proposed to be added to the fee, nor are any reductions proposed to assist with rebalancing the HRA until the outcome of the HRA makes the longer term clearer.

8.4 Appendix 6 sets out the fee proposed for Derby Homes for the next three years subject to amendment relating to the actual costs of pensions mentioned in 8.3 above.

## **9 Conclusions**

9.1 The overall outlook has worsened, but the short term financial position of the HRA remains robust thanks to the additional ALMO funding which has supported the Estates Pride programme.

9.2 Whether the funds set aside for long-term maintenance and repairs will be sufficient to maintain the standards that have been set by the Homes Pride programme in the longer term is a considerable risk to the HRA. The reliance on MRA is likely to prove to be inadequate in the future, and the repairs account continues to be under significant pressure. There are no funds from reserves set aside to support capital after 2010/11.

9.3 There is an assumption within the given figures that the government will be able to afford to recycle or 'rebase' funds into MMAs from the increase in rents nationally. This has been assumed as 0.1% a year above inflation until 2016/17, and 0.4% thereafter. There is a risk that the government may not grant these levels of funding in the future, as rebasing appears to have reduced to almost nothing at present. Should this happen there would be a significant additional problem for the HRA at that point, as funding would cease to increase in real terms per home in the way that it has for the last few years.

## 10 Consultation

10.1 The Council welcomes comments on this consultation to assist it with setting the budget for the next year.

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| **For more information contact:**<br>**Background papers:**<br>**List of appendices:** | Officer: David Enticott Tel 255318 e-mail david.enticott@derby.gov.uk<br>Determination of Housing subsidy and related emails.<br>Appendix 1 – Implications<br>Appendix 2 – HRA business plan<br>Appendix 3 – HRA budget 2009/10<br>Appendix 4 – HRA business plan with Asset Management spending increased<br>Appendix 5 – HRA business plan without rebasing after rent restructuring<br>Appendix 6 – Derby Homes' management fee<br>Appendix 7 – Detailed Estates Pride Programme for approval<br>Appendix 8 – Estates Pride new projects for approval |
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