DERBY CITY COUNCIL

COUNCIL CABINET –
24 FEBRUARY 2004

ITEM 20

Report of the Director of Finance
and Director of Policy

Housing Revenue Account Budget from 2004/05

RECOMMENDATIONS

1.1 To approve the Housing Revenue Account, HRA, budget for 2004/05, set out in Appendix 2, and the basis for the HRA Business Plan for 2003/05, as attached at Appendix 3.

1.2 To approve the application of transitional protection to the transfer of Rent Rebates from the HRA to the General Fund.

1.3 To agree that the planned Derby Homes Management Fee set out in 3.7.5 to the report will be the subject of further consultation with Derby Homes and that the Management Fee and retained management costs budget will be subject to further consideration at Cabinet in March 2003.

1.4 To appoint members to a joint working party with Derby Homes to consider the longer-term issues relating to HRA sustainability and the Derby Homes Management Fee, as set out in 3.7.18.

1.5 To approve an increase in capitalised salaries in 2004/05 and 2005/06 from 2.5% to 2.8% of the Homes Pride programme.

REASON FOR RECOMMENDATIONS

2. The Cabinet needs to adopt a financial plan for the HRA both as a budget for the next financial year and as an HRA business plan to inform longer-term strategy relating to housing.

SUPPORTING INFORMATION

3.1 This report sets out the financial plan for the HRA, and sets a budget for the next financial year, 2004/5 in Appendix 2. A series of assumptions are made to enable a longer-term financial plan to be set out, in line with government expectations of a balanced 30-year HRA business plan. There has been a considerable amount of development and change in the current financial year. This report attempts to reflect this in the business plan figures, which are very different to last year as a result.

2003/4 HRA estimated outturn

3.2.1 It is expected that the HRA should end the year around £0.5m in surplus overall. The position reported to Cabinet in December was around £0.9m surplus.

3.2.2 There have been a number of changes to the likely outturn position that contribute to this lower expectation. The major items are listed below:

Reduced DSO surplus contribution	£200,000
Additional Insurance costs	£58,000
Additional interest from £6m Homes Pride	£50,000
Additional Court Fees	£38,000
Additional Derby Homefinder software development	£20,000
Other net variations	£34,000
Total	**£400,000**

3.2.3 DSO surpluses relating to Housing work undertaken by Commercial Services will still, it is hoped, create a surplus that can be shared with the HRA, but there appears to be some doubt about the amount that is likely. The latest projection is based on the prudent assumption that there may be none. The final figures will be determined by the actual position over the whole financial year once known.

3.2.4 The decision to bring forward £6m of spending on Homes Pride will cost the HRA around £50,000 in interest this year, and was approved by Cabinet on 13 January. Derby Homefinder software development costs were greater than anticipated, as were Court Fees for debt recovery and insurances.

Decent Homes

3.3.1 The current financial year, 2003/4 has seen the first full financial year of the Decent Homes programme. Latest estimates are that the number of homes reaching the Decent Homes standard by the end of March 2004 will be around 11,000, leaving a further 3,400 to be brought up to that standard with the use of the funds made available as a result of additional ALMO funding from the government. It should be pointed out that around half the stock already reached the Decent Homes standard before the programme. By the end of the programme, the expectation remains that there should be none failing to reach the standard.

3.3.2 The Government recently gave the Council permission to bring forward £6m of the existing £81m programme from 2004/5 into 2003/4 and 13 January Cabinet approved this variation. This is reflected in the figures quoted in 3.3.1. The Council has also submitted a Building Cost Model, BCM, to the ODPM to increase the overall size of the programme from £81m to a higher sum of around £96m to achieve 'Decency plus' whereby tenants would benefit from a higher specification fitting than the minimum required to reach the standard.

3.3.3 Should the BCM bid be accepted, there is even the prospect of reaching the overall target even earlier than originally planned – in 2005 rather than the original planned date of 2006 or the overall government target of 2010. If the BCM is accepted by ODPM, there will need to be a further report to update the capital programme to include this additional borrowing. Any borrowing under this scheme would be fully financed by the ODPM through the new form of supported borrowing – SCE(R) through an increase to the ALMO allocation.

Government Changes to Financial Arrangements for Housing

3.4.1 The Government has changed considerably the basis of funding Council housing in 2004/5, and these changes are reflected in the budget projections.

Rent Rebates

3.4.2 Rent Rebates have traditionally been charged to the HRA, along with the subsidy from central government that funds the vast majority of the cost. The current cost is around £22m of gross payments on behalf of tenants, but this is offset by almost as much grant. There is a net cost of around £0.2m to the HRA representing the net cost of certain overpayments that cannot be recovered from future benefit payments. From 2004/05, this cost can be met by the General Fund. However, the Government has allowed a transitional period where councils can charge their HRA with the net cost of rent rebates for a further period of two years. The HRA estimates have been prepared on the basis that this is done.

ALMO subsidy

3.4.3 There had previously been considerable uncertainty about the length of time that Round 1 ALMO funding, including Derby's, is to continue at the favourable interest rate of 8%. The Council has recently been informed by the ODPM that this level of funding is now to continue until 2009/2010. From 2010/11, the costs of servicing the debt resulting from the Decent Homes programme will continue to be met, but only at cost. The reduction in subsidy to the HRA will be around £2m a year from 2010/11. The loss of the additional ALMO funding within the HRA Subsidy after 2010 is a serious problem in the medium to longer term, providing a sharp reduction in resources at that point. The government requires the Council to plan on the basis that the Housing Revenue Account will be in balance after 30 years, and the ongoing loss of significant resources in six years time therefore has more impact than might be the case in other services, as current spending must be adjusted to bring the overall plan back into balance.

Management and maintenance allowances

3.4.4 The government has, for the first time in ten years, revised the basis on which management and maintenance allowances, MMA, within the HRA subsidy system are calculated. Officers had lobbied hard to make sure that these changes were beneficial to the Council, in particular the treatment of crime data in the calculation. The result has been successful. The final management and maintenance allowances for 2004/05 are around £2.7m higher than those for 2003/04. This is clearly a major improvement for the HRA and significantly improves the financial position of the HRA.

3.4.5 There is also the prospect of a further improvement in allowances beyond 2004/05 as the full effect of these changes is phased in. The pace of this is uncertain, as the government wishes to protect those councils that have increases below the rate of inflation. An increase of 6% for each dwelling has been allowed for in 2005/06 in financial modelling, reducing thereafter to assumed inflation of 2.5% cash. Should the full impact of the increases eventually come through in future years' funding, there is a significant potential resource which has not yet been included in business planning. There is no guarantee at this stage, however, that such funding will materialise.

Prudential borrowing

3.4.6 2004/05 will also see the introduction of the prudential capital borrowing system. The HRA is treated separately within this system. In theory, the Council could borrow funds on behalf of the HRA to enable additional capital works to be carried out, but would receive no additional funding from government to help to pay the costs of this 'unsupported' borrowing. This contrasts with the existing programme where the cost of borrowing is effectively matched by subsidy. No provision for the costs of unsupported borrowing have been made in the HRA estimates as the existing capital programme is sufficient to deliver the Decent Homes standard.

Debt repayments

3.4.7 From 2004/05, the government will no longer require authorities to make any repayment on outstanding debt, and has reduced housing subsidy correspondingly. There is no net cost to the Council. However, this means that the Council's housing debt will increase rapidly in future unless it makes voluntary repayments of debt at the expense of the HRA. In the short-term, this would represent a cost to the HRA. This would, however, produce savings in future years for the HRA in terms of lower interest costs.

3.4.8 The dilemma facing all authorities is, therefore, whether to tackle the long-term debt problem that will arise for the HRA if debt rises and assets continue to be sold through Right to Buy sales.

3.4.9 It is suggested that, while the longer-term interest of the HRA might be served by repaying debt, it is too soon in the life of this new system to be clear about the benefits of such an approach. It is therefore intended only that a sum be earmarked, within the surpluses that should accrue from the next few years of the HRA, for the possible future repayment of debt. The overall resources available to the Council for future capital spending will also be a consideration in the longer term, as additional resources may be required to supplement future capital allocations. The scale of any such 'earmarking' for possible debt repayments within overall HRA resources will require a decision at a future Cabinet, but is in the meantime shown in Appendix 2 and 3 on the basis that the earmarked reserve will equal the previous minimum revenue provision of 2% of debt a year.

Consolidation of the Supporting People 'windfall'

3.4.10 As a result of the introduction of the government's 'Supporting People' grant, the HRA was able to save approximately £650,000 in the absence of a corresponding adjustment to housing subsidy. Given the improvement of the HRA's financial position as a result of increased MMAs, the Cabinet on 16 December 2003 approved a one-off increase of spending by the HRA to include amounts relating to:

- Sheltered housing – £400,000
- Derbyloans – £50,000
- CCTV – £100,000
- and further support to HRA Supporting People Contracts - £100,000.

The ‘windfall’ however forms only part of the overall position of the HRA, and the savings released have now been consolidated into the overall financial plans for the HRA. In so far as a further windfall is available, this is already taken into account in these plans.

Rents

3.5.1 Rent rises are now governed by government guidance on rent restructuring, which are increasing rents in real terms up to 2011/12. The Council’s policy has been to increase rents in line with limit rents – a measure of rents that determines whether the Council has to pay Rent Rebate Subsidy Limitation, RRSL. This is a policy that makes sure that the rent is kept in line with government guidance, while minimising the rent paid by tenants and the RRSL penalty paid by the Council. Rents above the limit rent can be charged, but 65% of these rents are paid back to the government in RRSL. The government guidance requires an average rent increase of 4.3% in limit rents in 2004/05. As rents for Derby have increased from October in recent years, there is an implied expectation that rents are likely to increase by around 4.3%. Individual properties have to be calculated separately, and the actual increases will therefore vary in some cases. Actual rent increases for 2004/05 will be announced in the summer of 2004.

3.5.2 The Cabinet has already decided to consult with tenants on the basis that, from April 2005, there will be a further rent rise, with future rises at the start of the financial year, in common with almost all other housing authorities. The reasons for this change are to increase the efficiency of the system overall, with 9,000 fewer alterations to benefits calculations. There is no intention to raise additional cash from tenants as a direct result of this change. The increase in rents in the year in which the change occurs should be around half of the government’s guideline for 2005/06 which will not be announced until around November or December 2004. The aim will be to raise the same amount of cash from tenants as would have been raised by the continuation of an increase in October. The rent rise for 2005 would then be announced in January or February 2005, if the increase were to take place in April.

3.5.3 In future years, there would then be a rent review for each April rather than October. Overall, there should be no increase in the total rent raised as a result of this measure.

Repairs

3.6.1 The HRA makes a contribution to the repairs account each year to maintain the condition of HRA housing stock. The assumed level of this contribution has been set at £8.5m, rising with inflation of 3% and reducing in line with stock numbers.

3.6.2 In addition to this funding, the Government also gives the Council a ‘Major Repairs Allowance’, MRA, towards the cost of major capital works. This is combined with other capital expenditure in the capital programme. The MRA enables the charge received by the HRA for interest on debt to be lower than would otherwise be the case, as it meets a substantial amount of capital spending in a ‘normal’ year. The MRA is assumed to increase in line with inflation but fall for stock numbers, starting at £7.6m in 2004/05. The actual levels are set each year by the government.

3.6.3 In the longer term, the Council will need to consider how to fund the replacement of the Homes Pride investments in Decent Homes and the general ageing of the Council stock. As a result, it is suggested that increases in the major repairs budget may well be required in the longer term. This will need to be discussed further with Derby Homes, but, for the meantime, an additional one-off £30m of funds have been included in Appendix 3 for use in 20 years time, and the underlying base repairs budget has been increased by 2% from 2010/11 and kept at this higher level thereafter. The £30m investment is clearly insufficient in itself to replace a £81m programme, but would be, if retained, a useful start to fund a replacement programme at that time. Should there be a requirement to increase other elements of the Business Plan as a result of consultation, then this additional funding would need to be reduced in the final plan to result in a balanced position.

Derby Homes Management Fee

3.7.1 The Management Fee for Derby Homes is governed by the agreement between the Council and Derby Homes, which provides for a negotiated fee to be agreed. The report to Cabinet of 5 August 2003 indicated a Management Fee for the next few years. The base Fee for 2003/04 was £9.816m. In addition to this, an increase of £221,000 to the Fee, for use on one-off items, has been agreed in relation to the carry forward of unspent Management Fee in 2002/03. A further one-off increase relating to the release of 2003/04 Supporting People 'windfall' funds will also be made, depending on the detailed arrangements for payment either by Derby Homes or by the HRA directly.

3.7.2 The basis of the calculation of future levels of Management Fee is expected to be the core Fee, adjusted for stock numbers, and then adjusted for other major items outside the control of Derby Homes, for instance pension contributions. The policy of adjusting the Fee for stock numbers after 2003/04 has been built into HRA business planning since the incorporation of Derby Homes and they are aware of this policy. However, we have not yet agreed the method by which this adjustment should be made.

3.7.3 The longer-term position of Derby Homes' Management Fee is therefore that it will decline in real terms with reducing stock numbers. As a consequence, the longer-term future of Derby Homes is dependent on an element of restructuring to enable it to secure sufficient income or reduced costs in future. Derby Homes has already taken on the management of some Housing Association properties. The key changes that might enable greater developments to take place are hoped for in the long awaited guidance on freedoms for three star ALMOs. The ODPM are not prepared at this stage to say when this might be expected. Should three star ALMOs, such as Derby Homes, be given new freedoms to, say, obtain Housing Corporation grants and the ability to develop new Council housing, this would have the potential to change the outlook of the company considerably. With any new freedoms would presumably also emerge new challenges and constraints. The position will need to be reviewed as a consequence of whatever proposals are finally made. In the meantime, the company is likely to find a longer-term problem with its overall resources should Right to Buy sales continue at their current rate of around 250 a year.

3.7.4 Savings in the level of the Fee have not previously been needed, as the agreement reached between the Council and Derby Homes set the initial few years' Management Fees to include a real terms increase, and the higher ALMO subsidy meant that the HRA could fund this. As the business plan has the assumption that costs will reduce with stock numbers, the Derby Homes' budget is at a crossroads in terms of future expectations. Should the Management Fee continue to rise in future years, there would effectively be a need for corresponding reductions in repairs or other budgets, or increases in income.

3.7.5 The basis of the provisional 2004/5 Fee is set out below. This represents a budgeted increase of 3.7% or 6.6% per Council dwelling managed. It is consistent with the current principles for setting increases in the fee, and in addition provides for £250,000 to fund growth.

	£m
Base Fee 2003/4	9.816
Less adjustment for stock	-0.236
Less leasing savings from change to purchase	-0.126
Add inflation - excludes leasing and purchases	+0.254
Growth –	+0.250
Correction to IT SLA	+0.090
Charges for treatment of empty Council Houses	+0.053
Stock Adjustments – removal of demolitions	+0.074
Other corrections to figure	+0.006
Provisional Fee 2004/5	10.181

3.7.6 IT SLA is a technical correction to the fee, reflecting an original underestimate of the likely cost to Derby Homes of the contract with Capita. Further work has been done to examine the detail of the initial calculations, and it is clear that this element needs to be increased to a more realistic level, reflecting previous levels of workload.

3.7.7 The reduction in discount to Council Tax for empty homes is likely to cost Derby Homes around £53,000 and it is accepted that this will need to be added to the Management Fee. However, it is possible that this adjustment may be alleviated by applications for exemption in some cases, and the final fee will need to be adjusted to reflect any savings as a consequence, so that the fee reflects the true cost to Derby Homes.

3.7.8 There is a further issue relating to the base Management Fee that has been discussed with Derby Homes. This is the possible deferral of two-thirds of the remaining stock adjustment by an agreed formula until a later year, in order to plan effectively for longer-term reductions. The Council needs to be satisfied that Derby Homes are committed to drawing up relative plans to achieve a corresponding larger reduction when the period of deferral ends. The exact means and amount have yet to be agreed with Derby Homes, but for prudence have been built into the budgets in Appendices 2 and 3 pending further discussions. The effect is provided for in the budget as follows:

	£m
Provisional Fee	10.181
Possible deferral of part of stock adjustment	0.108
Current budgeted fee 2004/5	10.289

3.7.9 The budgeted 2004/5 fee represents an increase of 4.8%, or 7.4% per council dwelling.

3.7.10 At this point, the Derby Homes' Management Fee is subject to further consultation with Derby Homes. As a result of this consultation, there may need to be amendments made to the level of the Fee. Any such revision will need a consequential amendment to the Business Plan to bring it back into balance.

3.7.11 The government's requirement to consider the HRA in the context of a longer-term 30-year plan leads to considerably different conclusions than might be adopted if the short-term was the only consideration. Over time, the expectation is that the surplus built up in the short and medium term needs to be considerable in order to smooth potential problems in future years, unless they are used to reduce future commitments by repaying long-term debt. As the government's financial framework becomes clearer, it is possible that in a future year the position will change substantially. Business planning over a thirty-year period is, of course, fraught with difficulties, particularly when taken in the context of government policy. Small changes in assumptions made can make considerable differences to the final outcomes. To some extent, therefore, care needs to be taken in relying too heavily on the model to set overall policy. Nonetheless, it is a government requirement that the plan must balance, and it is therefore necessary to continue to review the assumptions made in setting the business plan figures in order to balance the overall plan. The exact balance of spending between individual years and the extent of risk to be taken in setting the plan is the key to setting a reasonable and balanced plan.

Derby Homes Fee request

3.7.12 Derby Homes have requested a more substantial increase in the Management Fee for 2004/05. Their initial request is for a fee of £10.559m or approximately £14 a week for each dwelling, reflecting a number of developments and budget issues that have arisen in the last year. Such an increase would represent an increase of 7.6% when stock numbers have fallen by 2.4% - an increase in the Fee for each dwelling of 10.2%. It would also follow real terms growth of £548,000 over the two years 2002/03 and 2003/04.

3.7.13The Council's spending on management of the HRA, at £11.84 a week a dwelling, was below the English Unitaries' average of £12.19 a week in 2002/03. This represents a difference from the average unitary authority of around £270,000. The substantial increases in the Management Fee of the last two years should, however, have eliminated this. An increase to £10.559m would potentially leave spending well above this average.

3.7.14 The maintenance of Derby Homes' 3-star status is of critical importance, as considerable funding within the HRA is dependent on the maintenance of at least 2-star status. 3-star status also holds out a promise from the government of additional flexibilities that are yet to be announced. The final Fee will need, therefore, to strike the right balance between the need for restraint in the Fee to make sure that the Business Plan remains workable and sufficient funding to maintain good services to tenants. If the Fee is set at the level indicated in the budget, there would be a funding gap in 2004/05 between Derby Homes' initial request for a Management Fee of £10.559m and the provisional £10.181m fee of £378,000. This could be reduced by a deferral of stock adjustment in the short term if agreed, as discussed above, but a gap of £270,000 would still remain.

3.7.15 If future increases in management costs continue at their rate of recent years, the position would be much worse than indicated in the Appendices, which are based on an assumed reduction in costs pro rata to stock numbers. There is a gap between the assumed Management Fee which is reducing with stock numbers and the reality of the fee requested by Derby Homes, which is for a large real terms increase when stock numbers have fallen.

Stock adjustments

3.7.16 One of the key areas that needs to be agreed is the treatment of stock adjustments. While the agreement specifies that an adjustment be made, there is not currently an agreed basis for the exact timing of any reduction in the fee. Clearly, as Government funding reduces in line with stock numbers, a financial difficulty arises for the HRA if costs are not reduced in line with that funding. We will work with Derby Homes to reach an agreement that will enable the position to be clearly understood and planned for. This will need to reflect the difficulty that Derby Homes has in the short term of making structural changes to its budget, while retaining a substantial reduction methodology in order to maintain the longer term financial position of the HRA on a sustainable basis.

3.7.17 Any change to the projected basis in the business plan as a consequence of lower or deferred stock adjustments will need to be funded by equivalent levels of further funding or cost reductions in the longer run. There will therefore need to be an updated Appendix for the business plan and budget as a consequence of the finally agreed Fee.

3.7.18 It is proposed to set up a joint working party between the Council and Derby Homes' Board to examine the longer-term issues facing both the HRA and Derby Homes, and to in particular to resolve the issue of stock adjustments. It is suggested that both the Cabinet and the Derby Homes' Board appoint four representatives to take part in this working party. It is proposed that the Cabinet's representatives would consist of the Cabinet Member for Performance Management, Economic Development and Housing, and for Regeneration, Social Inclusion, Youth and Community, plus nominees from the Director of Finance and Director of Policy.

3.7.19 Given the need for further consultation, it is not proposed to recommend a decision on the final Management Fee until the Cabinet meeting in March.

Capitalised salaries

3.7.20 Derby Homes also receives funding for capitalised salaries relating to the Capital Programme. Their actual costs related to the management of this programme have been running above the initially agreed level of 2.5%. It is recommended that this rate should be increased from 2.5% to 2.8% of the programme total to reflect the actual costs being incurred. This remains a very low level of cost in terms of the management of a capital programme. There will be no impact on the total size of the capital programme assumed, but a reduction in works of the order of £90,000.

Other assumptions made in the HRA Business Plan model - Appendix 3

3.8.1 In general, costs are expected to rise by 2.5 to 3 per cent a year, in line with recent experience. An increase above this level is expected in pension provision in

2005/06 as was allowed for in previous models and plans. Right to Buy sales are estimated to continue at around 250 a year for the next few years .

3.8.2 Any additional funding from the BCM is not factored into these figures – see paragraph 3.3.2

Retained HRA

3.9.1 A portion of the HRA management costs remain under the direct control of the Council and this is known as the retained HRA. This funds some management functions that are relevant to the HRA but which are not covered in the Management Fee of Derby Homes.

3.9.2 The majority of the previous housing senior management team has now either been transferred to Derby Homes or has left the Council. Experience has shown that the ability of the Council to manage the HRA is insufficient since the incorporation of Derby Homes. The Council needs to strengthen its management of the HRA business plan process, and needs to recruit additional staffing as a consequence. It is estimated that this will cost the HRA around £100,000 a year. The remainder of the retained budget has been increased for inflation in line with other Council budgets.

3.9.3 Approval to fill these posts is subject to the final agreement on Derby Homes' Management Fee enabling a revised HRA Business Plan to be balanced. Should the fee increase above budgeted levels as a result of continuing discussions, there would need to be further work done to fund the balance of the HRA. This might require a scaling back in the £100,000 growth in the retained element. Posts will not therefore be filled until after a decision is reached at the 16 March Cabinet meeting.

Overall position

3.10.1 The overall position reveals a considerable short-term improvement on recent projections, but with a longer-term problem once ALMO funding reduces. Thirty-year projections for the Business Plan effectively require the building up of a substantial reserve over the next few years to fund potential difficulties in later years. In other words, the first few years with ALMO subsidy will need to subsidise the later years without that subsidy or the HRA Business Plan would become increasingly unsustainable.

3.10.2 There appears to be an opportunity to make sure that the HRA is set on a reasonably balanced long-term budget, and still offer a limited increase in the Management Fee for Derby Homes. Whether this can be achieved will depend on the outcome of the further negotiations on Derby Homes' Management Fee.

3.10.3 Once the Derby Homes' management fee and the means of future stock adjustments have been agreed, there will need to be a further update to both the HRA budget in Appendix 2 and the HRA Business Plan figures at Appendix 3. Any further rebalancing of the plan will involve an impact on the balance between management costs and future maintenance plans, or a review of long term income projections.

3.10.4 Appendix 3 sets out updated HRA business plan figures, to reflect the proposed budget in Appendix 2. The key figures are set out in the table below..

Year	Notes	Net expenditure for year £m	Interest earned on balance £m	HRA balance £m
2003/04		-0.5	0.0	0.5
2004/05		4.0	0.1	4.7
2005/06		3.0	0.3	8.0
2006/07		3.0	0.4	11.4
2007/08		2.8	0.5	14.7
2008/09		2.7	0.7	18.1
2009/10		3.0	0.8	22.0
2010/11	1	0.5	0.9	23.4
2011/12		0.3	1.0	24.7
2012/13		0.4	1.0	26.1
2021/22	2	-0.4	1.6	37.8
2032/33	3	-2.0	0.2	3.2

Notes:
1 End of additional ALMO funding.
2 Peak of balance and interest earned on balance. Without interest, later years would be still worse.
3 Final year of 30-year plan – final balance of £3.2m only possible owing to balance built up in middle years.

3.10.5 At the time of the last full report to Cabinet in August 2003, Cabinet approved the setting up of an earmarked reserve relating to the taking of a 'Lender Option, Borrower Option', LOBO, loan to fund the Homes Pride capital programme. The reserve was to be set up at the end of this financial year to spread the risk of higher subsequent interest rates, 'until the ALMO subsidy position becomes clearer'. Subsequently, the Government has introduced regulations relating to the treatment of such loans and has specifically required that any such borrowing must be pooled with the rest of the Authority's borrowing, effectively spreading the risk and benefit between the General Fund and the HRA. In addition, and as mentioned earlier, the ALMO funding position is now much clearer. There is therefore no longer any purpose in earmarking a specific reserve for this purpose within the HRA. These funds now effectively form part of the wider reserves of the HRA, and the HRA Business Plan has been drawn up on this basis.

3.10.6 In addition, within the overall HRA balance shown in the table at paragraph 3.10.3, sums have provisionally been earmarked for debt repayments, consistent with the consideration in paragraph 3.4.9

OTHER OPTIONS CONSIDERED

4. All options considered are discussed in the sections above.

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Background papers:	ODPM: Item 8 determination 2004/5; budget papers and calculations
List of appendices:	Appendix 1 – Implications Appendix 2 – Budget 2004/05 Appendix 3 – HRA business plan for 30 years – summary

IMPLICATIONS

Financial

1. Set out throughout the report.

Legal

2.1 The Council has a statutory obligation under Section 76 of the Local Government and Housing Act 1989 to avoid a deficit on the HRA and to keep this under review during the year. Longer term planning of the HRA enables the authority to do this on a basis that goes well beyond one year.

2.2 Sections 87 and 88 of the Local Government Act 2003 require Councils to produce a HRA Business Plan.

2.2 The Council must give four weeks notice of an increase in rents.

Personnel

3. Additional posts would be recruited to at an appropriate level as soon as practicable once a final decision on the retained HRA management costs is reached at a March Cabinet. Steps will in the meantime be taken to expedite the recruitment process, pending this decision.

Corporate themes and priorities

4.1 A **great place to live** and **safer and healthier communities** are both enhanced by the improvements in Council house standards as a result of Decent Homes.

4.2 **Value for money** will be supported by the continuation of the policy of limiting rent rises to avoid RRSL penalties.

HOUSING REVENUE ACCOUNT FORECASTS	2002/03 Outturn	2003/04 Approved Budget	2003/04 Estimated Outturn	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate
Average No of Dwellings (excluding shared ownership)	**15,013**	**14,702**	**14,667**	**14,274**	**13,930**	**13,680**	**13,430**	**13,180**
Average No of Dwellings (including shared ownership)	**15,046**	**14,734**	**14,699**	**14,306**	**13,962**	**13,712**	**13,462**	**13,212**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
EXPENDITURE								
Major Repairs Allowance	7,881	7,650	7,650	7,630	7,636	7,591	7,643	7,692
Contribution to Repairs Account	8,565	8,673	8,673	8,694	8,739	8,839	8,938	9,035
less DSO partnering cost reduction	-	-	-	(200)	(200)	(200)	(200)	(200)
	8,565	8,673	8,673	8,494	8,539	8,639	8,738	8,835
Provision for Bad and Doubtful Debts	973	1,150	1,150	875	900	925	950	975
Rent Rebates	21,238	21,220	21,400	200	100	-	-	-
Supervision and Management	11,010	10,675	11,979	11,739	12,151	12,010	12,218	12,440
of which Derby Homes Fee			10,164	10,289	10,642	10,459	10,624	10,797
Retained HRA			1,805	1,450	1,509	1,551	1,594	1,642
Capital Financing	9,044	8,962	8,751	7,475	8,704	9,033	9,331	9,351
of which Mainstream HRA	8,973	8,248	7,991	4,989	5,061	4,879	5,055	5,048
Arms Length	71	714	760	2,486	3,643	4,154	4,276	4,303
RCCO - Furniture and White Goods	383	-	-	-	-	-	-	-
Working Balance Carried Forward:								
Total	703	1,733	549	4,667	7,971	11,410	14,757	18,135
of which General Reserve including Contingency - Unearmarked	395	736	549	2,467	2,920	3,138	3,307	3,551
Earmarked for debt repayment	-	-	-	2,348	5,345	8,710	12,028	15,299
Capital Financing (LOBO) reserve	-	689	-	-	-	-	-	-
Derby Homes Management Fee	231	231	-	-	-	-	-	-
Derby Homes Depreciation Reserve	77	77	-	-	-	-	-	-
Total Expenditure	**60,105**	**60,371**	**60,152**	**41,080**	**46,001**	**49,608**	**53,637**	**57,428**
INCOME								
Balance Brought Forward	764	1,011	1,011	549	4,667	7,971	11,410	14,757
Rent	34,752	34,664	34,733	35,477	35,951	36,726	37,460	38,198
Interest Income	77	80	32	109	263	403	544	684
HRA Subsidy:								
Total	23,773	24,167	24,127	4,773	4,939	4,318	4,023	3,579
of which Mainstream	22,461	21,057	21,017	(1,706)	(1,539)	(2,160)	(2,455)	(2,899)
Additional re Arms Length	1,312	3,110	3,110	6,478	6,478	6,478	6,478	6,478
Contributions:								
Statutory Rebates	82	85	85					
Community Facilities	457	164	164	172	181	190	200	210
DSO Surplus	200	200	0	0	0	0	0	0
Total Income	**60,105**	**60,371**	**60,152**	**41,080**	**46,001**	**49,608**	**53,637**	**57,428**

APPENDIX 3

	Expenditure								Income											
Year	Major Repairs Allowance	Contribution to Repairs Account (net)	Provision for bad & doubtful debts	Rent Rebates	Supervision and Management	Capital Financing Mainstream	Capital Financing ALMO	Total Expenditure	Gross Rent	HRA Subsidy Receivable/ (Payable) (Mainstream)	HRA Subsidy Receivable (ALMO)	HRA Subsidy Receivable/ (Payable) (Total)	Community Facilities & Other Income	Total Income	Net Income/ (Expenditure)	Balance Brought Forward	Interest	Balance Carried Forward	Earmarked Balance Carried Forward	Unearmarked Balance Carried Forward
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2003/04	7,650	8,673	1,150	21,400	11,979	7,991	760	59,603	34,733	21,017	3,110	24,127	249	59,109	(494)	1,011	32	549	0	549
2004/05	7,630	8,494	875	200	11,739	4,989	2,486	36,412	35,476	(1,706)	6,478	4,773	172	40,421	4,009	549	109	4,667	2,348	2,319
2005/06	7,636	8,539	900	100	12,151	5,061	3,643	38,030	35,951	(1,539)	6,478	4,939	181	41,071	3,041	4,667	263	7,971	5,345	2,626
2006/07	7,591	8,639	925	0	12,010	4,879	4,154	38,198	36,726	(2,160)	6,478	4,318	190	41,234	3,036	7,971	403	11,410	8,710	2,700
2007/08	7,643	8,738	950	0	12,218	5,055	4,276	38,880	37,460	(2,455)	6,478	4,023	200	41,683	2,803	11,410	544	14,757	12,028	2,729
2008/09	7,692	8,835	975	0	12,440	5,048	4,303	39,292	38,198	(2,899)	6,478	3,579	210	41,987	2,694	14,757	684	18,135	15,299	2,836
2009/10	7,739	8,930	1,000	0	12,249	5,017	4,268	39,202	38,925	(3,395)	6,478	3,083	221	42,228	3,026	18,135	835	21,996	18,525	3,471
2010/11	7,783	9,201	1,025	0	12,468	5,043	4,268	39,788	39,656	(3,884)	4,251	367	232	40,255	467	21,996	945	23,408	18,525	4,883
2011/12	7,825	9,292	1,050	0	12,717	5,096	4,268	40,247	40,387	(4,383)	4,251	(132)	243	40,498	251	23,408	1,000	24,659	18,525	6,134
2012/13	7,864	9,380	1,075	0	12,553	5,122	4,268	40,262	40,756	(4,593)	4,251	(341)	256	40,671	408	24,659	1,057	26,124	18,525	7,599
2013/14	7,900	9,465	1,100	0	12,796	5,122	4,268	40,650	41,125	(4,832)	4,251	(580)	269	40,813	163	26,124	1,114	27,401	18,525	8,876
2014/15	7,933	9,572	1,125	0	13,064	5,122	4,268	41,084	41,593	(5,070)	4,251	(819)	282	41,056	(28)	27,401	1,164	28,537	18,525	10,012
2015/16	7,963	9,706	1,150	0	12,974	5,122	4,268	41,183	42,159	(5,305)	4,251	(1,054)	297	41,402	219	28,537	1,217	29,973	18,525	11,448
2016/17	8,032	9,842	1,175	0	12,948	5,122	4,268	41,387	42,725	(5,600)	4,251	(1,349)	312	41,688	301	29,973	1,280	31,554	18,525	13,029
2017/18	8,103	9,979	1,200	0	13,259	5,122	4,268	41,931	43,290	(5,901)	4,251	(1,649)	327	41,968	37	31,554	1,342	32,932	18,525	14,407
2018/19	8,174	10,119	1,225	0	13,224	5,122	4,268	42,132	43,854	(6,206)	4,251	(1,955)	344	42,243	111	32,932	1,402	34,445	18,525	15,920
2019/20	8,246	10,261	1,250	0	13,570	5,122	4,268	42,716	44,416	(6,517)	4,251	(2,266)	361	42,512	(205)	34,445	1,460	35,700	18,525	17,175
2020/21	8,318	10,405	1,275	0	13,928	5,122	4,268	43,316	44,978	(6,834)	4,251	(2,583)	380	42,775	(541)	35,700	1,506	36,665	18,525	18,140
2021/22	8,392	10,551	1,300	0	13,898	5,122	4,268	43,531	45,638	(7,154)	4,251	(2,902)	399	43,135	(396)	36,665	1,550	37,818	18,525	19,293
2022/23	8,466	16,700	1,325	0	14,262	5,122	4,268	50,143	46,297	(7,476)	4,251	(3,225)	419	43,492	(6,651)	37,818	1,466	32,633	18,525	14,108
2023/24	8,541	16,604	1,350	0	14,638	5,122	4,268	50,524	46,955	(7,805)	4,251	(3,553)	440	43,842	(6,681)	32,633	1,245	27,197	18,525	8,672
2024/25	8,618	16,660	1,375	0	14,616	5,122	4,268	50,658	47,612	(8,140)	4,251	(3,888)	462	44,186	(6,472)	27,197	1,018	21,742	18,525	3,217
2025/26	8,695	16,717	1,400	0	14,999	5,122	4,268	51,201	48,267	(8,481)	4,251	(4,230)	486	44,523	(6,678)	21,742	782	15,846	18,525	(2,679)
2026/27	8,773	16,777	1,425	0	15,396	5,122	4,268	51,761	48,921	(8,830)	4,251	(4,578)	510	44,853	(6,908)	15,846	527	9,465	18,525	(9,060)
2027/28	8,853	10,838	1,450	0	15,382	5,122	4,268	45,913	49,574	(9,185)	4,251	(4,934)	536	45,176	(737)	9,465	387	9,115	18,525	(9,410)
2028/29	8,934	10,997	1,475	0	15,786	5,122	4,268	46,582	50,225	(9,548)	4,251	(5,297)	563	45,492	(1,091)	9,115	364	8,389	18,525	(10,136)
2029/30	9,016	11,159	1,500	0	16,205	5,122	4,268	47,270	50,975	(9,919)	4,251	(5,667)	592	45,899	(1,371)	8,389	327	7,345	18,525	(11,180)
2030/31	9,100	11,323	1,525	0	16,202	5,122	4,268	47,540	51,723	(10,297)	4,251	(6,046)	622	46,299	(1,240)	7,345	286	6,391	18,525	(12,134)
2031/32	9,185	11,490	1,550	0	16,628	5,122	4,268	48,243	52,370	(10,684)	4,251	(6,432)	653	46,591	(1,652)	6,391	236	4,975	18,525	(13,550)
2032/33	9,271	11,659	1,575	0	17,068	5,122	4,268	48,962	53,115	(11,077)	4,251	(6,826)	686	46,975	(1,987)	4,975	169	3,157	18,525	(15,368)