DERBY CITY COUNCIL

COUNCIL CABINET
8 FEBRUARY 2005

Report of the Director of Finance
and the Director of Policy

Housing Revenue Account Budget

RECOMMENDATIONS

1.1 To set the Housing Revenue Account, HRA, 30 year-plan for 2005/06 to 2032/33 as set out in Appendix 2 to this report, and to recommend to Council the adoption of the HRA budget for 2005/06 as set out in Appendix 5 to this report.

1.2 To approve the revision to the Derby Homes Management Fee for 2004/05 and approve the fee for 2005/06 as set out in Appendix 4 to this report.

1.3 To note that any minor variations in the HRA budget in 2005/06 during the year may be reported to Council Cabinet under contract and procedure matters.

REASON FOR RECOMMENDATIONS

2.1 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 thirty-year plan commenced in 2002/03 and currently runs until 2032/03.

2.2 There are two scenarios illustrated in this report – one more optimistic than the other. The proposal is set out on the optimistic basis. If the additional funds assumed do not materialise, then the alternative scenario in Appendix 3 could be adopted as the plan. The budget for 2005/06 remains the same in both scenarios.

SUPPORTING INFORMATION

3.1 The Government's decision last year to time limit additional ALMO funding to 2009/2010 means that, in the short term, the HRA can be balanced relatively easily and should make surpluses. In the longer term, from 2010/11, the HRA budget is likely to be worse off by around £2m a year owing to this single change. The approach of dealing with this sharp reduction by attempting to smooth the transition between the two periods as far as possible has been continued in this report.

Management and Maintenance Allowances, MMA

3.2 Following the major changes to MMA last year, the Government have again changed some aspects of the formulae this year, although to a much more limited extent. The draft determination of subsidy proposed to change some aspects of how crime is counted towards the total – changing from burglary to criminal damage and from violence to harassment. The combined effects of these would have been to reduce the MMA by around £0.2m a year.

3.3 As a result of representations made by Derby, the ODPM has reconsidered resulting in an increase for Derby of around £0.4m from the draft determination for 2005/06. The increase in MMA as a result of this change has been treated as a one off for now, since the ODPM have said that they wish to reconsider the crime elements again next year.

3.4 In setting the 2004/05 MMA total allocated to Derby, a sum of £1.2m was held as part of a transitional arrangement to protect those authorities that lost considerable sums of their previous MMA. This process has continued into 2005/06, and there remains a potential for a further £0.6m of additional MMA if the funds are all released in future. Further release of much of the remaining funding can be expected, but the impact of the eventual measure of crime is likely to reduce the final amount due. The plan includes an assumption of a further increase of around £180,000 next year, being a reasonable estimate of what might still be due in future years.

3.5 The MMA for Derby has increased well above the rate of inflation again this year. An extra £180,000 in real terms has been built in as an assumption in the plan. This increase is not guaranteed, and any reduction from this anticipated level of MMA next year would reduce substantially the amount of funding that can be made available for any programme of estate sustainability from 2006/07.

Further Rent Restructuring

3.6 In July 2004, the Government consulted about bringing Local Authority rents exactly into line with Registered Social Landlord, RSL, rents by 2012. At the moment, both sectors' rents are set to convergence to approximately the same rent in 2012. The consultation suggested using the same formula from April 2005 for restructuring local authority rents as that used for RSLs, resulting in a further increase to Council rents of around £2 a week by 2012. This would have been over and above those already in train as a result of rent restructuring itself. The Government has deferred implementation of this change for a year to consider the implications more carefully.

3.7 The budgeted figures in Appendix 2 assume that the Government will adopt this policy in 2006/07, and that rents will therefore rise by around 5% a year over the period of rent restructuring. Next year, rents in Derby will rise by only 2.9% because of the change to an April rent increase.

3.8 Should the Government not adopt this policy next year, the financial position of the HRA will deteriorate substantially. If this assumption proves to be overoptimistic, it will affect the ability of the HRA to finance an estate sustainability fund after Homes Pride.

Derby Homes' Management Fee

3.9 The adjustment to Derby Homes' Management Fee, or 'fee', related to the loss of right to buy and other properties, has been discussed extensively at the HRA Strategic Working Party. The level of right to buy sales has been assumed at 300 for 2004/05, 250 for 2005/06 and 1.5% of the balance of the stock thereafter. There is an indication that the levels of actual sales this year have slowed compared to this target and, if this were to translate into a sustained slowdown, this would increase the management fee payable in later years, reducing the financial pressure on Derby Homes that would otherwise arise. The Strategic Working Party's recommendation is that, for at least five years, the fee should be variable with stock numbers at a rate of 70% of the core fee for each dwelling lost, excluding those items paid separately, for example insurance and leasing costs. The count is suggested to apply to the fee two years later – so that the stock losses during 2004/05 will apply to the fee in 2006/07. This gives a full year's notice of the actual figure, and a clear pattern to the fee for the future. This will apply to all right to buy losses. The Strategic Working Party has not yet discussed whether to apply the same principle to losses through demolitions, which are according to individual negotiation for each case.

3.10 The intention is to maintain this 70% rate for the fee adjustment beyond five years, subject to sufficient funding being available. As a result of the additional funding for MMA this year, and the anticipated further increase next year, this assumption has now been made in both Appendices 2 and 3.

3.11 In 2004/05, it is proposed to revise the fee to allow for an increase in Derby Homes' costs as a result of a changed method of apportioning the costs of Derby Homefinder, which have resulted in an increase in their charge above the rate of inflation. The additional cost is £98,000 in 2004/05 but reduces to £86,000 for 2005/06, as there are some IT development costs included for 2004/05, which are one off in nature. It is also proposed to add a specific payment for one year only to the revised fee for 2004/05 to allow for printing a tenants handbook. The revised fee is set out in Appendix 4.

3.12 For 2005/06, there are a number of issues that require an adjustment to the fee as set out in Appendix 4. The changes are explained below:

- **Pensions**: The Local Government Pension Scheme, LGPS has been revalued, and Derby Homes' contribution will have to increase in 2005/06. The exact amount is not yet known, but an estimate of around £281,000 a year has been built into the fee at this stage. This may be amended if the actual requirement is materially different.

- **DACP :** The DACP have been faced with an increase in costs as a result of moving to St Peter's House and have at the same time lost the grant previously paid by the Council's general fund. As a result, they have requested increased funding from Derby Homes. Derby Homes is seeking to increase their fee to cover an additional £20,000 a year of costs as a consequence. This bid is split into two components: the replacement of £5,000 grant from the Council's general fund and £15,000 to meet the increased costs of St Peter's House. It is proposed to increase the fee by £5,000 to replace the previous grant, but not for the increased accommodation costs.

- **Derby Loans:** Derby Loans has asked Derby Homes to finance a continuation of their overhead costs of £15,000 a year through a grant to them for 2005/06 and 2006/07. This should give them sufficient time to arrange other funding for future years. It is not anticipated that any further grant will be made available beyond this, and it is proposed that this be stated in the award of the grant to Derby Loans.

- **Tenancy Support Team:** As a result of Supporting People funding changes, it is likely that this service will be reduced considerably next year. Derby Homes is requesting that the HRA underwrite any costs of the team for a further six to twelve months should the reduction be more than can be managed through turnover. Any such underwriting would be clearly one off and time limited. As a maximum, a year's Supporting People income of £250,000 would have to be allocated, although it is anticipated that the actual cost will be much less than this.

- **Inspections:** It is anticipated that the Housing Inspectorate will inspect Derby Homes in March 2006. The cost of this will be around £25,000. It is proposed that this be added to the fee on a periodic basis each three years as inspections are required.

These above costs have been included in Appendices 2, 3 and 4.

3.13 The basic principles for setting the fee for the foreseeable future should now be agreed. The fee for future years can therefore be calculated in advance, and is shown in Appendix 4.

Contract Renewal

3.14 A major issue over the next twelve months is whether the Council should extend the contract of Derby Homes for the next five years from 2007 to 2012, and to conclude any changes to the management agreement under which Derby Homes operates. Issues such as the level of any fee adjustments during that period could be clearly set out in the agreement.

Repairs and Maintenance

3.15 The Major Repairs Allowance, MRA, has been amended this year as a result of a change in the archetypes of housing used to calculate it. This has led to a reduction in funding from £7.63m to £7.22m, a loss of 5.4% in cash terms. The original concept of Decent Homes was that the funding would clear the backlog of work and lead to future planned maintenance being met by the MRA. While this was just about sustainable with the previous level of funding, there will, over time, be a pressure on planned maintenance as a result of this reduction. In the short term, this can probably be managed as a result of the considerable investment already made in Decent Homes. In the longer term, there is a doubt whether MRA is now sufficient for future needs. Any need to support MRA funding from the HRA would have a significant impact on the rest of this plan.

Estate Sustainability

3.16 The HRA Strategic Working Party has been attempting to create an estate sustainability fund, using any spare resources within the plan. The proposal at Appendix 2 includes estate sustainability spending of £15m – spread as £3m a year over the five years from 2006/07, as the Decent Homes programme ends. This spending is critically dependent upon the assumptions made above – that the additional MMA of a further £0.18m and further rent restructuring – occur. The scenario set out in Appendix 3 is where neither the remaining MMA nor further rent restructuring arises.

3.17 The intention of the estate sustainability fund is to spend more on conditions outside the home itself - on things to improve estates outside as well as inside. This is a very wide definition, and it is expected that Derby Homes will work closely with the Council and consult tenants widely over the coming year about what sort of improvements that might be prioritised if the planned resources are forthcoming. Derby Homes would then report back to the Council on the sorts of improvements that are requested with a view to starting to use the fund in 2006/07. A report will therefore be presented to Council Cabinet and Community Regeneration Commission on the proposed use of the fund once the process of consultation with tenants is complete.

3.18 The following table attempts to set out the key figures within the plan for different sets of assumptions. In each case, it has already been assumed that the rate of fee withdrawal will be maintained at 70%. The variables are therefore further rent restructuring, additional MMA and estate sustainability spending.

Appendix	2	3
Further rent restructuring	Yes	No
Additional MMA	£0.18m	£0
Estate Sustainability £m	15	0
HRA BP 2032/33:		
Operating loss in year £m	-0.78	-1.54
Interest earned	1.10	1.74
Net surplus / loss in year	+0.32	+0.20
HRA balance at year end	26.69	41.95

3.19 Greater detail of the figures is shown in Appendix 2 and 3. The levels of losses in year thirty of the plan need to be seen in the context of projected rents by then of £58m a year and the remaining substantial HRA reserves generating interest to cover the majority of the loss concerned.

3.20 Essentially, the planned spending of £15m should be possible as long as the additional MMA is received as indicated, and that further rent restructuring takes place either as planned or in a similar manner. This might be done, for instance, if rent restructuring were to be extended by the Government for another few years. This would allow for the final convergence between social rents, and would produce very similar figures for the final years of the plan. On balance, therefore, it is suggested that the optimistic scenario in Appendix 2 can be adopted as the plan, with the proviso that, should the optimistic assumptions made prove unfounded next year, then the final estate sustainability spending be reviewed.

3.21 It is therefore proposed that an estate sustainability programme continue to be drawn up in anticipation of the position being as planned. The starting date of 2006/07 allows sufficient time for more consideration and consultation with tenants about the contents of such a programme, and furthermore ties in with the end of the Decent Homes programme. It will therefore assist in managing the transition at the end of that programme, and allows for the possibility that the optimistic assumptions do not finally transpire.

3.22 The HRA budget for 2005/06 is set out in Appendix 5, on a basis consistent with this report and the recommended rent increase for 2005/06 to Council. It is recommended that this budget be recommended to Council on March 2 2005.

Capitalised Salaries

3.23 The HRA Strategic Working Party has also recognised that the ending of the Homes Pride programme will result in a need to review the basis on which Derby Homes is paid for its work relating to the management of that programme, for which it is paid an additional fee. In recent years, with a massive programme, economies of scale have resulted in a smaller fee in percentage terms than applied before, or could continue afterwards. As a result, it is proposed that the fee after 2005/06 be set at 8.5% of the capital programme cost. This is a reduction on the overall costs being incurred at the moment, but will allow Derby Homes to maintain a sizeable team supporting the capital programme.

Consultation

3.24 This report has been circulated in draft form to meetings of the HRA Strategic Working Party, City Housing Consultative Group, Derby Homes Board, and the Community Regeneration Commission during January 2005.

OTHER OPTIONS CONSIDERED

4.1 Some of the other options are already set out in the report. The provision of an alternative plan at Appendix 3 is to allow for the possibility that further rent restructuring does not take place after all – this might require estate sustainability spending to be reduced substantially or completely.

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Background papers:	HRA determination for 2005/6 from ODPM
List of appendices:	Appendix 1 – Implications Appendix 2 – HRA business plan Appendix 3 – HRA business plan alternative model Appendix 4 – Expected Derby Homes Management Fee 2005/6 to 2007/8 Appendix 5 – HRA budget 2005/6

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

Equalities impact

4. No direct impact on equalities issues.

Corporate objectives and priorities for change

5. The objectives of **Strong and positive neighbourhoods, protecting and supporting people**, and a **healthy environment** are all enhanced by the improvements in Council house standards as a result of Decent Homes, and by any environmental improvements possible through the estate sustainability fund.