DERBY CITY COUNCIL

Consultation Document

Housing Revenue Account Business Plan and Budget 2007/08

Key Issues

1 The Housing Revenue Account, HRA, remains financially robust in the short term but continues to face increasing pressure over time. The HRA has a long term planning framework, with the budget supplemented by a thirty-year business plan, known as the HRA Business Plan, or HRABP.

2 The overall financial position for the HRA is very similar to that reported last year, and the balance of risks and funding can be maintained at a similar level for another year. This means that there is no need to change the course currently set, but neither are there significant opportunities to expand service provision to any material degree. The current year's projected outturn is anticipated to be underspent by around £0.7m, due mainly to slippage in the Estates Pride programme.

3 The proposals would allow the continuation of the Estates Pride programme of works with a view to supporting a £15m total programme over a number of years. The Council has already committed £6.345m of this programme, and it is suggested that the Council authorise the drawing up of plans for a further £3m of Estates Pride funding which would take the total committed to £9.345m. The remaining balance of the Estates Pride programme will be reviewed each year in the light of the financial position as it is then.

4 The proposals also include additional funding to cover a loss of income as a result of the restructuring of the sheltered housing support service from wardens attached to a set of properties to a floating support service.

5 This consultation document is based on the updated draft determination of housing subsidy for 2007/08 issued by the Department for Communities and Local Government, DCLG, in November 2006. The final determination will be issued in December and, if materially different to the draft, may require changes to he final proposals made to Cabinet in February.

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Review of HRA financial position 2006/07

1 The aim of the Housing Revenue Account, HRA's, financial strategy remains to generate sufficient funding in the short term to allow a relatively smooth transition at the end of substantial additional ALMO funding in 2011/12 of over £2.5m a year, and in the meantime to enable the creation of an Estates Pride fund of £15m for improvements to estates and facilities available for the benefit of tenants.

2 This strategy continues to be valid, with expectations of future government subsidy funding being confirmed in this year's draft settlement or determination as it is known.

3 Monitoring of the position so far this year indicates that the budget could be underspent by around £0.75m. This year's variance is made up of the following anticipated movements:

Budget variance	Forecast year end £000	One off / Ongoing	Comments
Housing Revenue Account			
Repairs account	*	Ongoing	* See commentary below
Estates Pride	(800)	One off	Slippage of capital items into later years
Debt Management expenses	50	Ongoing	Due to additional borrowing as a result of the Homes Pride Programme
Total HRA	**(750)**		

4 The repairs account was overspent in 2005/06 by a total of £1.2m of which £0.8m related to the 2005/06 financial year and the balance from previous years. This budget was therefore included in the Council's list of risk budgets this year and has been subject to regular monitoring by Derby Homes with monthly checks from Council officers. The latest forecast position by Derby Homes indicates that the action plan put in place to reduce overall spending is working and the budget will remain in balance at the year-end. There are, however, considerable risks in taking a half-year position on this account at face value, as it has traditionally had a much higher level of spending in the second half of the year. This year-end 'surge' should be counteracted to some extent this year by actions taken within the action plan, which are also more concentrated in the second half of the year. Whether the budget will eventually be in balance is therefore unclear at this stage, although the forecasts appear good and actions have been taken to address the underlying issues. If a material overspend was to continue, there would be significant problems with the business plan and there would need to be further consideration of the proposed plan at that point.

5 Slippage in the Estates Pride programme is not surprising as much of the funding is committed to programmes which take time to implement, including the Council's street lighting PFI and capital schemes which are levering in further investment from elsewhere. The funding will be re-profiled into later years, so that the total budget remains at the planned £15m.

6 General HRA balances at the end of 2005/06 stood at £10.5m. This was £0.7m higher than was expected due to slippage in the Estates Pride programme. Total slippage in the programme from the original, optimistic, profile of £3m by the end of 2006/07 is now expected to be around £1.5m.

Future planning

7 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.

Previous plan

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

- **Rents**: it was assumed that rent restructuring would continue until 2012, and that the government's proposals about further rent restructuring advanced last year would be implemented. It was also assumed that the Council would be fully compensated within the subsidy system for restraining average rents to 5% overall as required by the government, requiring higher rent increases of around 4% above RPI a year after the cap is lifted should the target of 2012 be required to be reached, and that any extension to rent capping would continue to be compensated in the subsidy system.

- **Capital:** it was assumed that the Estates Pride programme would start during 2006/07 and that it would be contained within the £15m provisionally 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.

- **Housing Subsidy:** it was assumed that MMAs would continue to increase in real terms by 0.75% a year until 2012, and by 0.5% a year thereafter.

Review of key assumptions

9 This year's subsidy determination is the second year of a two-year settlement, and is therefore anticipated to be much more stable than those experienced in recent years when considerable variances in projected subsidies have happened. This year's *draft* subsidy per dwelling is only £3.52 a year better than previously expected for 2007/08.

10 In terms of rents, the previous expectation – based on inflation of 2.5% a year - was for an average rent in 2011/12 of £67.56. The new guidance increases this to £68.34, assuming future inflation will be 2.5% a year. The increased total is due to

an increased rate of inflation, of 3.6%for the year to September 2006, which is used as the basis for rent increases in 2007/08.

11 The report on the HRA Business plan in February 2006 indicated that the HRA needed to increase rents well above inflation over the remainder of the rent-restructuring period to 2012. The government has imposed a cap on average rent increases of 5% a year for 2006/07 and 2007/08, but has not reduced the target rent for 2011/2012. If and when the cap is lifted, Councils in Derby's position will then have to increase rents over the remaining four year period from 2008/09 to 2011/2012 by at least 4% a year above the inflation rate if rent restructuring is to be completed by 2012.

12 The cap on rents also creates a funding gap in the HRA, but the government has to date successfully compensated Councils including Derby for the loss of income through an adjustment to the subsidy system. Once the cap is lifted, Council tenants are likely to be faced with very steep rent increases, unless the government continues some form of transitional protection for those Councils and their tenants who were previously capped. Other options for the government would be to extend the rent cap and compensation for one or more years, or to extend the rent-restructuring period beyond 2012. So far the government have not indicated which option they will adopt. For the moment, therefore, the plan assumes that the Council will effectively be required to phase in real terms increases above inflation evenly over the remaining four years of rent restructuring, but will receive transitional compensation for our losses as a result. As the government has previously agreed a compensation package for the in year losses, it would seem reasonably likely that they would extend this to some form of transitional protection. There is, however, a small chance that such protection would not be offered, and either rents would have to rise still more sharply or a funding loss of perhaps £0.5m might result for the HRA.

13 One of the larger 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. Repairs spending was overspent last year by a cumulative £1.2m of which £0.8m related to 2005/06, and an action plan has been drafted, and is being implemented by Derby Homes with a view to eliminating the overspend. The business plan relies on the action plan achieving a reduction back to planned spending by 2007/08. Should this not happen, then the business plan would need to be reconsidered, and changes would need to be made. Derby Homes' action plan relies to a considerable extent on actions put in place in the first half of this year, but which will result in reduced spending in the second half of the year and beyond. The plan continues to be closely monitored, and it is assumed for now that the outcome will be successful, although perhaps not for this financial year. Should the overspending persist into next year, there would clearly be a major issue for the HRA which would need to be addressed, and which might therefore be a threat to the Estates Pride programme.

Estates Pride

14 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.

15 The initial approval to the programme last year amounted to some £6.345m of both capital and revenue schemes. Revenue resources of £3.5m were committed for five years to both neighbourhood working and a youth inclusion programme. The balance of £2.845m were committed to a series of developments, including supporting the Street Lighting PFI project from 2007/08, contributions to proposed grant schemes and a sum of £0.76m for Derby Homes to allocate to the greatest priorities that it identified.

16 Subject to the final subsidy determination, it is now proposed to extend the programme by another year and to ask Derby Homes, through its consultative group for Estates Pride, to draw up plans to spend a further £3m. Should the repairs account's spending be contained within the plan set out by Derby Homes, the proposals could then be formally approved by a further report to the Cabinet.

17 There are some proposed changes from the original planned spending, as a result of a delay to the implementation of neighbourhood working plans, and also a reduction in their projected additional cost. Some of the initial planned capital contributions have been revised downwards in scale, leading to funds being placed into the balance for further works. The overall proposed programme is now as set out below:

	Original	Total Cost
Committed last year	£000	£000
Five year revenue programmes (total committed over five years)		
Neighbourhood working	2500	2108
Youth Inclusion Project	1000	1000
One off issues:		
Street Lighting Contribution – maximum	1210	1210
Contributions to capital schemes	874	502
Balance for capital works including management of the programme	761	1525
Funding Committed 2006/07	**6345**	**6345**
Further proposals to be considered		3000
Total commitment at this point	**6345**	**9345**
Projected funding available	15000	15000
Balance for later projects assuming funding remains available	8655	5655

Derby Homes' management fee

18 The basic principles of setting Derby Homes' management fee were agreed two years ago, 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.

19 In addition, Derby Homes have been supporting Derbyloans with a grant of £15,000 a year for the last couple of years, which was added to the fee for those two years to

allow them to make such a grant without detriment to other services. This funding has now come to an end. Also, additional support arrangements were put in place for the loss of Supporting People income relating to the change from a warden based service to a floating support service no longer tied to specific properties. This funding was previously agreed as £680,000 for 2006/07 and £350,000 for 2007/08. In these cases the proposed fee confirms the previously agreed principles.

20 Appendix 4 sets out the fee proposed for Derby Homes for the next three years.

21 Service charge income has been reduced downwards in this latest version of the plan by around £40,000 a year as a result of a limitation on increases by the government to a maximum of the retail prices index, RPI, plus 0.5% a year and to lower charges to tenants as a result of the new sheltered accommodation service.

Conclusions

22 The balance of the plan remains very similar to the previous plan, reflecting relative stability in HRA funding over the last year. The last few years of the plan remain a concern, as they are moving into an operating deficit, although the deficit remains covered by interest on reserves. The main risks within the plan are now long term maintenance and repair costs, and future 'rebasing' of MMAs.

23 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 might prove to be inadequate in the future, and the repairs account is clearly under significant pressure.

24 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 0.75% a year above inflation for the next few years, and 0.5% thereafter. There is a risk that the government may not continue to abide by these promised levels of funding at some point in the future. Should this happen there would be a significant 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, and is projected to continue.

Consultation

25 This consultation paper is being widely distributed, including to Derby Homes' Board and its senior management, the City Housing Consultative Group, and the Community Commission.

For more information contact:	Officer: David Enticott Tel 255318 e-mail david.enticott@derby.gov.uk
Background papers:	Draft determination of Housing subsidy and related emails.
List of appendices:	Appendix 1 – Implications Appendix 2 – HRA business plan Appendix 3 – HRA budget 2007/8 Appendix 4 – Derby Homes' management fee

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 **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 improvements possible through the Estates Pride programme.