

Report considered by Cabinet – 6 February 2007

<b>Key Decision</b>	<b>No</b>
<b>Listed on Forward Plan</b>	<b>Yes</b>
<b>Within Policy</b>	<b>Yes</b>
<b>Policy Document</b>	<b>Council's Priorities</b>

## HOUSING REVENUE ACCOUNT BUDGET 2007/08 ONWARDS

Accountable Cabinet Member: Councillor I Henderson

Contact Officer: Isabell Procter (Head of Finance) - 01908 252756

Finance Contact: Caroline Chandler (Finance Manager) - 01908 253905

### 1. Purpose

- 1.1 To request Cabinet to recommend to Council the draft budget for the Housing Revenue Account (HRA).

### 2. Recommendation

- 2.1 That the Council be recommended to approve the proposed draft Housing Revenue Account budget for 2007/08 and its implications for future years within the framework of the Council's existing corporate priorities.
- 2.2 That the Council be recommended to approve an annual increase in average rents of 2.86% for 2007/08 as the Council moves towards Government formula rent by 2011/12.
- 2.3 That the Council be recommended to approve an annual increase in garage rents of 1.4% for 2007/08.
- 2.4 That the Council be recommended to approve an increase in Shared Ownership rents of 1.4% for 2007/08 in line with the contractual obligations of the Lease.

### 3. Background

- 3.1 The Council will agree its budget for the 2007/08 HRA in February 2007, based on the rent levels recommended by both the Cabinet and the MKC Housing Forum. Future budgets and rent levels will be decided annually.

3.2 This report sets out the detailed information as follows:

- (a) **Annex A** shows the draft 2007/08 budget and future years' projections for 2008/09, 2009/10 and 2010/11, The numbers include average rent increases of 2.86% for each year, the level required in order to meet the government's required weekly rent target by 2011/12.
- (b) **Annex B** shows information on future rent levels.
- (c) **Annex C** highlights the movements between the 2006/07 original and revised budgets and the proposed 2007/08 budget.
- (d) **Annex D** highlights the movements between the 2006/07 original net budget and the proposed 2007/08 net budget.
- (e) **Annex E** lists the growth Items.

#### 4. **Issues and Choices**

4.1 The Housing Revenue Account (HRA) is ring-fenced and accounts for the provision of housing by the Council to tenants and leaseholders. It is funded by rents rather than from Council Tax (which supports other services).

4.2 **Annex A** shows the 2007/08 draft budget for the HRA compared to actual spending for 2005/06 and projected spending for 2006/07, as well as future years' projections. The budget has been prepared on the basis of:

- (a) Dwelling Rents
  - (i) Under the framework for social rent reform, by 2011/12 all local authority rents have to converge to a weekly figure calculated using a Government formula for each dwelling.
  - (ii) **Annex B** illustrates various options for achieving the required average weekly rent level. Preferred increases in dwelling rents of 2.86% and Garage rents of 1.4% for 2007/08 were agreed at the Housing Forum meeting on 16th November 2006. Based on current information, a minimum increase of 2.86% will be required each year to meet the Government's required rent level by 2011/12.
  - (iii) An average rent increase for dwellings of 2.86% equates to approximately £1.88 per week.
  - (iv) Heating Charges are budgeted to increase by 10% to recover the cost of providing this service.
  - (v) Rent increases for shared owners 1.4% (this is contractual, based on the 2006/07 council house rent increase).
- (b) Projected repairs expenditure level in 2006/07 is assumed to fall from 2007/08 onwards. The HRA has experienced an increased level of

spend on repairs against the current year's budget. Spend to save investment in the housing stock is being identified to balance this additional expense, net of contractual inflationary increases and reductions in cost, due to RTB sales (fewer homes to maintain), and efficiencies resulting from the MITIE partnering contract.

- (c) Continued provision of revenue contributions to support the completion of the Decent Homes capital programme.
  - (d) Recent changes in subsidy in the Housing Subsidy Determination issued by DCLG.
  - (e) The level of service within the management and special services areas are maintained in line with current inflationary factors. Future savings in line with the reduction in council housing stock and therefore rental income in the medium term continue to be sought.
- 4.3 It is considered prudent to maintain a level of reserve at around £2.4 million (£200 per property) to cover any unforeseen circumstances. Although the information shown at **Annex A** indicates a healthy reserve level up to 2010/11, it is acknowledged that should the service continue at similar levels of income and expenditure, then in 2011/12 the reserve will fall below the prudent level and then fall into deficit the following year (2012/13).
- 4.4 The forecast financial situation is recognised by the service and plans are being discussed in order that the situation may be addressed, in order to ensure a healthy HRA. There is a need for councillors, tenants, leaseholders and officers to work on what the future standard for Decent Homes should be post December 2010.
- 4.5 The Local Government Act 2003 requires the Council's Section 151 Officer (Chief Finance Officer) to report to members on the robustness of estimates. This requirement has been built into the budget process throughout and a final report will be made as part of the budget report to full Council in February 2006.

Budget Assumption	Commentary on Robustness
The Service's track record in budget and financial management.	<p>The Directorate's recent track record in budget and financial management is:</p> <p>2004/05 – Net surplus for year of £3.42m (net of a contribution to capital of £1.093m) compared to a budgeted surplus £1.95m resulting in a favourable variance of £1.47m for the year.</p> <p>2005/06 – Net deficit of £0.97m (net of a contribution to capital of £4.67m) compared to a budgeted loss of £0.36m resulting in an adverse variance of £0.61m for the year.</p>

Budget Assumption	Commentary on Robustness
	<p>2006/07 - Current year position is currently expected to show a net deficit of £0.60m. (This includes an agreed contribution to capital of £3.86m.) The budget for the year is a net deficit of £0.91m resulting in a favourable variance of £0.31m.</p>
<p>The Directorate's capacity to manage in-year budget pressures</p>	<p>Financial management has become much improved in recent years. Information is more accurate and staff are better trained, enabling budget pressures to be highlighted much more quickly and action taken.</p> <p>Budgets are reduced to reflect declining numbers of dwellings but this is countered by the age of stock and increased repair demands.</p> <p>Several factors that influence the budget are legislatively led, (such as RTB) or contractual, (such as repairs contracts) over which there is limited discretion.</p> <p>The Changing MK Housing intervention ('systems thinking') is bringing efficiencies to the service. These efficiencies are expected to be applied to better maintenance of the housing stock. .</p> <p>There are other considerations in setting the budget:</p> <ul style="list-style-type: none"> <li>• Contributions to the capital programme (RCCO's), are needed to ensure the funding of the Decent Homes and other major works programmes.</li> <li>• By improving access to the repairs service this year there has been an increase in people using the service. So far this year (2006/07) 4,246 additional works orders have been processed. A shift in expenditure to planned maintenance to deliver reduced reactive repairs is being explored.</li> </ul>

Budget Assumption	Commentary on Robustness
	<ul style="list-style-type: none"> <li data-bbox="791 333 1461 584">• A contingency budget is available to cover the additional repairs expenditure this year. However, this is not sustainable in the medium term. A plan that demonstrates how we can make the HRA sustainable for the medium and longer term is being prepared.</li> <li data-bbox="791 629 1461 763">• This year there has also been an increase in expenditure on void properties. More detailed work will be undertaken on this area to bring costs down.</li> </ul>

Overall, the Director considers the estimates to be robust within the assumptions made. However, the following could affect the estimates:

- (a) Right to Buy sales of more than the budgeted 130 dwellings. Each additional dwelling sold results in lost rent of approximately £3,500 for a full year.
- (b) The budgets for 2007/08 and onwards have assumed cost efficiencies as a result of the relationship with the repairs partner, MITIE. New contracts have brought reduced costs but this is currently outstripped by the increased demand. Addressing this issue presents a significant ongoing task.

4.6 At its meeting on 16 November 2006, the Council's Housing Forum recommended that the Cabinet adopt an average rent rise of 2.86% and an increase in garage rents of 1.4%. The Social Care and Housing Policy Development Committee, at its meeting on 24 January 2007, considered the suggested rent increases and noted the recommendations of the Housing Forum.

## 5. Implications

Policy

The budget reflects current policies.

### 5.1 Resources and Risk

✓	Capital	✓	Revenue	x	Accommodation
x	IT	✓	Medium Term Plan	x	Asset Management

The draft budget includes contributions from the Revenue Account to HRA Capital Reserves to support the capital programme. These are shown in **Annex A**.

Revenue implications are presented in **Annex A** and reflected throughout the report.

Efficiencies identified as part of the Medium Term Planning process are incorporated in the projected budgets shown in the appendices to the report.

5.2 Legal

None.

5.3 Other Implications

<input type="checkbox"/>	Equalities / Diversity	<input type="checkbox"/>	Sustainability	<input type="checkbox"/>	Human Rights
<input type="checkbox"/>	E-Government	<input checked="" type="checkbox"/>	Stakeholders	<input type="checkbox"/>	Crime and Disorder

Background Papers: Officer Working Papers.

Rent Increase report presented to the Forum on 16 November 2006

Budget Report presented to the Social Care and Housing Policy Development Committee on 24 January 2007