

EXETER CITY COUNCIL

SCRUTINY COMMITTEE – COMMUNITY HOUSING REVENUE ACCOUNT

20 JANUARY 2009

1. Introduction

- 1.1 Attached are the Housing Revenue Account (HRA) estimates for 2009-10 for approval of the Scrutiny Committee – Community.
- 1.2 This report outlines the strategic framework within which the estimates have been prepared, changes in accounting practices, which affect all budgets and detailed reasons for any significant changes in the Management Unit estimates.

2. Budget Framework

- 2.1 The estimates include assumptions for pay, general inflation and income as follows:

• Pay	2.5%
• General inflation	Nil (see paragraph 2.5 below)
• Income	5.0%
• Interest on Investments	3.0%

- 2.3 The draft HRA Subsidy determination for 2009-10 has been increased by the following in line with the number and types of dwellings as at 1st April 2008:

• Maintenance	5.87%
• Management	2.58%
• MRA	5.33%
• Rent (average)	5.96%.

- 2.3 Communities and Local Government (DCLG) have proposed to put back the date of rent convergence under rent restructuring to 2024-25. This is solely for the purpose of calculating Guideline rents for 2009-10; this date will be reviewed for future years as part of the wider reform of the HRA Subsidy system.

- 2.4 In net terms, the subsidy payment to the Department of Communities and Local Government has increased by some £324k and now stands at £4.738m. DCLG have also limited the rent increase in 2009-10 to 6.2% and have already specified that the rents for 2010-11 will increase by 6.1%. As a result, the amount that the HRA provides in support of the capital programme to achieve the Decent Homes Standard in 2009-10 is £880,000, and in this year it there is a requirement to take £682,000 from the working balance to support the capital programme. This is an increase of £789,400 in Revenue Contributions to Capital (RCCO) over 2008-09.

- 2.5 As a means of finding efficiency savings many non-pay budgets will not be fully increased for inflation. There will be some exceptions to this in particular where there are ongoing contractual arrangements in place and where the Council has to meet the full price increase e.g. insurance, fuel and electricity. Recently released figures show that UK inflation fell in October from a 16-year high, as oil, food and transport costs fell. The Consumer Prices Index (CPI) measure dropped to 4.5% from 5.2% in September. The Retail Prices Index (RPI), the alternative measure of

inflation which includes housing costs, also fell from 5% to 4.2%, the biggest fall since 2003. This downturn trend has also continued in November with further reductions to both CPI (4.1%) and RPI (3.0%). Although the Government no longer produce targets for the RPI it is still used to determine increases in pensions, benefits and pay negotiations. With regard to next year, the Bank of England has said inflation could fall below its target of 2% and might drop as low as 1%. With regard to the RPI many economic forecasters are currently predicting that the UK's retail price index will turn negative next year.

- 2.6 In November the Bank of England reduced the base rate from 4.5% to 3% and has subsequently followed this up with further reductions to 1.5% bringing interest rates to their lowest in the banks 315 year history. This lowering of interest rates affects the City Council in a number of ways. On the negative side, the drop in interest rates combined with the lowering of confidence in the banking sector means that we have to significantly lower our investment returns on our cash deposit in comparison with previous years. The likelihood is that investment returns will be no more than 3% in comparison with returns in excess of 6% that we have achieved in recent years. Conversely on the positive side, the lowering of interest rates also means that the cost of borrowing is now also cheaper. This is particularly important to the City Council which is going to make use of borrowing in order to fund part of its capital programme.
- 2.7 The available capital resources for 2009-10 are £12.117 million with £15.241 million required in respect of the General Fund, and the Housing capital programme will be some £5.06 million making a total spend of £20.301 million. This shows that the Council will have to use borrowing in addition to other capital resources to finance its capital programme requirements. This will also have an ongoing impact on the Council's revenue budget. The current revenue cost of borrowing consisting of interest and loan repayments, is about £65,000 for each £1 million that is borrowed. The prudential capital framework enables the Council to borrow within self-imposed targets largely based on affordability. It is unlikely that the Housing account will need to use borrowing to fund its capital programme until 2010-11. A list of the proposed new schemes for this Committee is attached at Appendix 3.
- 2.8 The changes in respect of 2009-10 Fees and Charges for the Housing budget are included at Appendix 2

3. Key Revenue Budget Changes Proposed for 2009-10

- 3.1 The proposed budgets reflect a combination of budget increases and savings and the key changes are as follows:

5A1 MANAGEMENT

Employee costs have been increased to include a new Housing Stock Condition Surveyor post; the cost of the post will be recharged to various capital schemes. There is an increase in utilities budget in respect of sheltered accommodation sites and communal areas. An additional budget in respect of downsizing schemes has been funded.

Support services budgets have changed significantly, the main changes being a reduction in the Legal, Financial and Cashiering services recharges and an increase in the Office room rental and central postage recharge.

The income from the supporting people grant has been increased as a result of tenancy changes and there is an increase in the income from leasehold property

management.

5A3 SUNDRY LANDS MAINTENANCE

There has been a small increase in the cost of the Garden Assistance scheme which is to be re-tendered in 2009.

5A4 REPAIRS FUND CONTRIBUTION

The Repairs Fund stands at £3.9m and reflects the level of maintenance required to support the number of properties currently held. In general the level of funding for work on Empty Properties, Tenants Compensation, and Painting to Flats has remained at the 2008-09 level. There has been an increase in funding for Electrical Testing and Service Contracts for gutter cleaning, extractor maintenance and Legionella Testing; this has been offset by a reduction in the funding for the Internal Decorations program. Additionally there is revenue support of £1.562m to undertake work in respect of the Decent Homes Standard. The Major Repairs Allowance (MRA) for 2009-10 is £3.273m and has been increased by 5.33% but also reflects the reduction in housing stock as a result of the Right to Buy option giving a real increase of 4.84%.

5A6 CAPITAL CHARGES

Depreciation of HRA dwellings has been calculated in accordance with the government's guideline on the valuation of tenanted property. There is a small reduction in finance leasing costs as one contract was completed in 2008-09.

5A8 RENTS

The increase in the estimate of income from housing rent reflects the government's increase of 6.2% in the Limit Rent for 2009-10 and the continuing reduction in the number of properties sold under the Right to Buy Scheme. Garage rents have been increased by 5% and reflect the level of rent being collected in 2008-09.

5B1 GOVERNMENT SUBSIDY

See paragraphs 2.2 to 2.4 above

5B2 INTEREST

Interest on mortgages reflects the average balance outstanding at during 2009-10. There is a reduction in interest on balances which reflects effect of the current reduction in investment interest rates. (see 2.6 above)

5B4 MOVEMENT IN WORKING BALANCE

The Working Balance will provide £682k towards the 2009/10 capital programme. The forecast HRA Working Balance at 31st March 2010 is £1.8m

4. RECOMMENDED that Members are asked to approve the Estimates.

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COMMUNITY & ENVIRONMENT