

EXETER CITY COUNCIL

SCRUTINY COMMITTEE – COMMUNITY 10 MARCH 2009

EXECUTIVE 24 MARCH 2009

HOUSING REVENUE ACCOUNT BUSINESS PLAN 2009-2039

1 PURPOSE OF THE REPORT

- 1.1 To inform Members of the outcome of the annual review of the Housing Revenue Account Business Plan.

2 INTRODUCTION

- 2.1 All local authorities which have retained their housing stock have a statutory obligation to produce a 30 year Housing Revenue Account (HRA) Business Plan that is passed as 'fit for purpose' by their local Government Office. The plan sets out the financial position for the HRA and apportions funding to both revenue and capital spending. The plan also sets out the services priorities in terms of service improvements and capital investment.
- 2.2 The current HRA Business Plan has been reviewed to ensure financial models and funding predictions match current levels of subsidy and other income. The current review has been undertaken following receipt of the draft HRA subsidy determinations for 2009/10. The total finance available has been checked against our housing capital programme, including the Decent Homes Programme, to ensure sufficient resources are available to meet these commitments. The levels of capital resources available, and the investment plans for the housing stock are set out in detail in the Housing Asset Management Strategy (see separate agenda item).

3 2006-2036 HRA BUSINESS PLAN

- 3.1 Following the Options Appraisal exercise in 2004/05 the Council committed enough housing capital resources to ensure that we not only met the Decent Homes Standard by 2010, but also a higher 'Exeter Standard' by 2015. This was agreed with residents following extensive consultation and the Government Office for the South West (GOSW). The Options Appraisal was signed off by the GOSW in July 2005.
- 3.2 The 2006–2036 Business Plan predicted that the HRA will continue to make a surplus over the lifetime of the plan. This surplus would be used to maintain and, where possible, increase reserves and to make significant revenue contributions (almost £2 million per annum by 2015) to the housing capital programme. It also predicted that our HRA Subsidy contribution to central Government would remain at or around £3.3 million per annum.
- 3.3 Despite this, the plan also predicted that the amount of capital resources available would fall short of the expenditure required by 2008/09. At that time we planned that this shortfall would be made up by improved procurement of materials and the use of some reserves. This has proved to be the case. However, the plan also recognised that the level of shortfall would rise significantly by 2015 when any future capital programme would need to be severely reduced, unless other means of funding the programme could be found.

4 2009-2039 HRA BUSINESS PLAN

- 4.1 Since the publication of previous Business Plan the amount of finance available for the housing service has changed considerably and a full review of the situation has been undertaken by officers and residents on the Tenants and Leaseholders Committee (TALC). The result of this review is outlined in this report and the separate Housing Asset Management Strategy report elsewhere on the agenda.
- 4.2 The biggest impact on the amount of finance available has been the change to the Council's subsidy payment to central Government. The 2007/08 HRA Subsidy Determination produced a dramatic increase in our subsidy contributions from £3.3 million per annum to £4.4 million. In 2009/10 this will rise again to £4.7 million with further increases predicted, year on year, to approximately £5.6 million by 2015.
- 4.3 This change has affected the level of revenue contributions we are able to make to the capital programme (now reduced to approximately £800k in 2008/09) and meant a greater use of reserves to maintain the capital programme at sustainable levels. The Council's HRA reserves will reduce to approximately £1.8 million in 2009 and £1.5 million in 2010 to provide additional support to the capital programme. It is not recommended that these reserves are allowed to fall any further to ensure we have sufficient funds available to meet unexpected or emergency expenditure.
- 4.4 At the same time rents, although increasing above inflation, will not reach target rent therefore denying the HRA further resources. The level of capital receipts from Right to Buy sales has now reached an all time low and Government rules on the use of these receipts now mean we are only allowed to keep 25%, with the remainder being 'pooled' nationally. Historic receipts, accrued over many years, have been spent on decent homes investment in the housing stock. Finally, income from the interest on our investments has declined as interest rates have fallen and the size of our reserves has reduced. The full set of HRA estimates for the 30-year business plan period are attached as Appendix I.
- 4.5 At the time of writing this report the Council received information via a third party that ministers are considering a change to the way interest is charged to the HRA. This change would seek to treat negative subsidy authorities (as per Exeter) in the same way as positive subsidy authorities and is likely to have a positive effect on our HRA subsidy calculation. Any change in the Council's housing finances will be considered once their full effect is known and if significant will be reported back to members.
- 4.6 Following a comprehensive review of the Council's housing assets (both stock and land holdings), in particular the condition of the housing stock and its surrounding areas, the levels of cyclical work, planned maintenance and major improvements are forecast to increase. The current information from the stock condition survey database, other individual surveys such as those undertaken during the annual improvement programme and responsive maintenance data all show that the level of maintenance and improvement work required is far greater than originally predicted. In addition, in order to meet the Decent Homes and Exeter Standards the amount of external work to buildings and estates had been reduced to free up sufficient funding. Some of the external environment is now causing concern and has seen a rise in complaints from tenants. Many other components within our properties are nearing or are past their predicted natural life (eg boilers, electrical heating systems, water supply piping, windows etc) and budgets need to be created to meet the need to replace these. Additional expenditure is also required to ensure communal areas in blocks of flats meet new fire safety regulations.

- 4.7 At the same time it is expected that the Government will announce that the Decent Homes Standard will need to be maintained after the 2010 target has been met and possibly increased and expanded into other areas of work, for example, improving the energy efficiency of our stock.
- 4.8 Unfortunately, because of the changes in our financial position the revised HRA Business Plan is unable to allocate the amount of finance required to undertake the level of work identified. As a consequence the Exeter Standard, promised to tenants in 2005 cannot now be delivered within the timescales originally agreed. Other work such as re-roofing and re-wiring will now be done using an assessment based on condition rather than age, helping the Council to reduce levels of expenditure in these areas in order to maintain expenditure in others. The capital resources available annually over the full 30-year period of the business plan are set out in Appendix II.
- 4.9 The Housing Asset Management Strategy sets out in detail how expenditure of the available capital resources will be prioritised. It also sets out the work and levels of investment that is required to the stock that cannot be funded. These 'unfunded' works will continue to be monitored and included in future improvement programmes if and when resources become available.
- 4.10 The Business Plan will continue to seek improvements to the housing service overall. The latest tenant satisfaction survey showed that levels of satisfaction remain high (well above national averages) and that almost 50% of tenants have noticed real improvements to the service over the past two years. It is hoped these improvements will continue and that our overall value for money will increase. Such improvements may also generate further efficiency savings that can be recycled into improved services or an expanded capital programme. We will also ensure that our contracting arrangements continue to drive efficiencies in the service provided and improve the quality of the service over the lifetime of the contract.

5 HRA SUBSIDY REVIEW

- 5.1 There are currently 206 stock holding local authorities across the country. Of these 156 are in 'negative subsidy', including Exeter. This means that the Government believes the amount of money we need to spend on our services is less than the income we generate. Therefore, any notional 'surplus' is paid into the national Housing Revenue Account and re-distributed by Government to those Councils (typically large urban authorities) where expenditure is high.
- 5.2 Over recent years the amount of subsidy paid by authorities such as Exeter has risen dramatically as illustrated in paragraph 4.2. This has caused concern amongst those negative subsidy authorities and prompted ministers to call for a comprehensive review of the current system. The Head of Housing Services sits on the national review body and has provided evidence to demonstrate that our expenditure needs are greater than the current HRA formulas allow. It is expected that the outcome of this review will be reported to ministers in the spring/summer of 2009 with any firm recommendations being considered during the next comprehensive spending review, due in 2010. Any change to the system will then be implemented from April 2011.
- 5.3 Whilst this review is welcome, and it is hoped will result in a fairer settlement for authorities such as Exeter, this does not help plug the gap in funding for our housing capital programme from 2010 onwards. Therefore, a short term solution is required to enable the capital programme to be sustained pending the outcome of the national HRA subsidy review.

5.4 Therefore, the revised Business Plan recommends that in order to maintain a sustainable capital programme the Council will borrow against the Housing Revenue Account. The total amount required will not be known until the draft HRA Subsidy Determination is received in November this year. However, the amount required is unlikely to exceed £1 million. Current interest rates are such that the cost of this borrowing is likely to cost approximately £40,000 per annum.

6 S151 OFFICER COMMENTS

6.1 The Head of Treasury Services has confirmed the accuracy of the financial information used in this report and can also support the conclusions presented below.

7 CONCLUSION

7.1 The HRA Business Plan continues to demonstrate that the Housing Revenue Account will generate a surplus, year on year, as a result of the low cost of managing and maintaining our housing stock. This surplus will continue to be used as a contribution to the housing capital programme.

7.2 The plan also demonstrates that due to increasing subsidy payments, reduced income from the Right to Buy and investments and annually capped rent rises, the amount of finance available to invest in the housing stock falls short of the total amount required over the period of the business plan.

7.3 In managing the housing stock it is important that improvements to services continue to be made and that any efficiency savings generated as a result are recycled into improved services and/or additional stock investment

7.4 That whilst the Council waits for the outcome of the national HRA subsidy review it agrees to borrow against the HRA in order to maintain a sustainable capital programme in the medium term.

8 RECOMMENDED

That Scrutiny Committee – Community supports and Executive approves

- 1) the conclusions in this report;
- 2) that if necessary the Council borrows against the HRA in 2010/11 to maintain the capital programme pending the outcome of the national HRA subsidy review;
- 3) that a further review is undertaken of the HRA Business Plan in 2010 and the findings reported to Members.

HEAD OF HOUSING SERVICES

S:PA/LP/ Committee/309SCC4
24.2.09

COMMUNITY & ENVIRONMENT DIRECTORATE

**Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling this report:**