

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Leader and Cabinet	14 December 2006
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HRA – A FORWARD LOOK 2007/08 TO 2011/12

Purpose

1. To indicate to Cabinet the anticipated medium term financial position of the Housing Revenue Account (HRA)

Background

2. At the meetings held on the 12 October 2006 and the 9 November 2006, Cabinet considered the Medium Term Financial Strategy (MTFS). These two reports focused mainly on the General Fund rather than the HRA. However, the HRA will also face financial pressures over the next few years and this report has, therefore, been prepared in order to keep the Cabinet abreast of the likely financial position in relation to the HRA.

Considerations

3. The need for the HRA to make revenue savings was highlighted in both the HRA Business Plan and during last year's Options Appraisal exercise. As a consequence, savings were achieved in 2005/06 and 2006/07 through service reorganisation and the revenue spending of the HRA has been put on a more sustainable footing. However, as was pointed out in the Interim Report on the MTFS the major financial issue for HRA is the funding of the capital programme.

Revenue Expenditure

4. **Appendix A** gives a ballpark projection of the HRA budget to the year 2011/12. This is based on information currently available and is at out-turn prices. Several items included in the projections are very difficult to predict with any degree of certainty and therefore the forecasts should be viewed with extreme caution. Two examples of areas where the reliability of estimates are especially questionable are the transfer to central government and repairs and maintenance.
 - (a) Transfer to Central Government
 - (i) Estimating amount to be transferred to central government by way of "negative subsidy" is particularly problematic as not only does it make up around half of the HRA expenditure but is also very difficult to predict, mainly because the basis for the calculation is decided each year.
 - (ii) A provisional notification of the transfer for 2007/08 has already been received from the Department of Communities and Local Government (DCLG) and this has been used in the HRA projection at **Appendix A**. However, in view of previous experience, Members should be aware that the final notification could vary by several hundred thousand pounds and that this item of expenditure is almost totally outside of the control of the Council.

- (b) Repairs and Maintenance
 - (i) It is now some years since the last full Stock Condition Survey was undertaken and the Survey now in progress may well provide information on the state of the Council's housing stock that could alter the financial picture. Reaching and maintaining the Decent Homes Standard is one of the objectives included in the HRA Business Plan and the new Survey may impact on the expected cost of achieving this.
 - (ii) The need for expenditure on repairs and maintenance is influenced by many unpredictable factors such as the weather.
- 5. The HRA will benefit financially from the savings being made as part of the MTFs and the transformation project because some of these relate to corporate expenditure; an appropriate portion of which is charged to the HRA.
- 6. Whilst, as already mentioned, considerable reductions in expenditure have already been achieved as a consequence of reorganisations within the housing service (including a major reorganisation of the Sheltered Housing service), the forecasts at **Appendix A** indicate that some further opportunities for reductions in net revenue expenditure may need to be identified. The minimum level of working balance considered acceptable is £1 million and the forecasts show that this may not be achieved in 2011/12.
- 7. The figures included in Appendix A show expenditure being greater than income and reliance being placed on balances from 2009/10. This situation is expected to arise because unless some changes are made, expenditure is likely to increase at a higher rate than income mainly because of the labour intensive nature of the service, the reduction in stock numbers and restrictions on income.
 - (a) The annual increase in staffing costs is expected to be far higher than inflation owing to the impact of increments and additional employee pension contributions. The uplift used by the DCLG to calculate this year's transfer figure does not take account of either of these factors.
 - (b) The stock numbers are expected to reduce year on year as a consequence of Right to Buy and other sales and/or demolitions for redevelopment (such as the proposals for the Windmill Estate). The decreasing stock numbers are unlikely to be sufficient to merit an equivalent reduction in staffing levels over the next few years, however, the DCLG transfer calculations are based on stock numbers.
 - (c) The DCLG has requested that average rent increases are limited to 5% and has put in place financial penalties to reinforce this request.
 - (d) From April 2003 housing benefit in relation to part of the service charge for sheltered housing was replaced by financial assistance in the form of Supporting People Grant. Under the Supporting People Regime an amount made available to County's Supporting People Team is distributed according to agreed priorities between the various agencies providing "support" (including sheltered housing) throughout the County. Therefore, not only is there competition for funding, but in addition the total available is expected to be reduced by around 5% in 2007/08 compared to the current year. Whilst it is no longer considered likely that the Council will be expected to lower the support element of the Sheltered Housing service charge by 5% in 2007/08 there is still expected to be pressure to reduce this charge in future years and by implication the cost of providing the service.
- 8. The DCLG expect Authorities to move to a situation where costs of services only enjoyed by some tenants are not paid for by rents in general but are wholly recovered

from the beneficiaries of the service and the calculations for the transfer to the DCLG are based on this assumption. The forecasts in **Appendix A** anticipate that there will be a higher proportion of costs recovered from users in future, however, this area may present further opportunities to increase HRA income.

9. The HRA Business Plan is now over two years old and this, together with the possible need to reduce expenditure and/or increase income in future years, means that Housing Officers are intending to review the Business Plan in 2007 and to reconsider the priorities and objectives of the HRA service in order to be in a position to prioritise expenditure and, thereby, make the best use of the limited resources available.

Capital Expenditure

10. **Appendix B** is a copy of the appendix to the report on the MTFS illustrating the projected Capital Programme if expenditure continues at the existing level and taking account of "growth bids" for 2007/08 and beyond. The projected reduction in the programme that will be needed, unless additional grants and/or contributions become available or the Council makes recourse to borrowing as a funding source, is highlighted in this Appendix.
11. **Appendix B** covers the Capital Programme for the Authority as a whole and, therefore, includes both General Fund and HRA expenditure. **Appendix C** is an extract of the projected figures that relate only to the HRA expenditure included in **Appendix B**. The HRA projections show that there may be a problem in 2009/10 and that by 2010/11 there is likely to be a funding shortfall in region of £4 million to £5 million a year.
12. Wherever possible, HRA capital expenditure is funded from capital receipts, the major repairs allowance, grants and contributions rather than from revenue. Whilst it is legal to pay for capital projects from the HRA, the forecasts shown at **Appendix A** suggest that there is unlikely to be sufficient revenue available to support capital expenditure from this source.
13. The information obtained so far from the Stock Condition Survey appears to indicate that expenditure at around the current level will be needed if the Council is to maintain decent homes standard for all its stock, keep the infrastructure in a safe condition and continue to undertake disabled adaptations.
14. Whilst there may be some scope to reduce HRA capital expenditure, it is unlikely that a level of expenditure that maintains the decent homes standard and achieves health and safety requirements for the infrastructure and housing stock, can be funded from the sources currently used.
15. A large cut in the HRA capital programme would probably have an adverse financial effect on the HRA in relation to responsive repairs and staffing recharges. If there is a reduction in capital expenditure on major repairs and improvements then, as a consequence, there is likely to be an increase in the need for HRA revenue funded responsive repairs. Unless staffing levels are reduced alongside any cut in the capital programme, then additional staffing recharges, that are currently included in the capital programme, would fall on the HRA.

Implications

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| 16. | Financial | The financial implications are contained in the body of the report |
| | Legal | There is a statutory obligation for the HRA to be in balance |

Staffing	A considerable cut in the major repairs and improvements programme may impact on staffing levels
Risk Management	A significant reduction in repairs to homes and infrastructure, such as paths, could have safety and insurance implications for the Council. The decent homes standard may not be fully maintained if there is a substantial shortfall in funding for the HRA capital programme.
Equal Opportunities	There do not appear to be any equal opportunities implications

Consultations

17. Following consideration of this report by Cabinet a presentation on this forward look at the HRA will be made to the district wide Tenant Participation Group.

Effect on Annual Priorities and Corporate Objectives

18.	Affordable Homes	The Council's properties make up the majority stock of affordable rented homes in the District.
	Customer Service	Planning for the future should enable a better service to be provided to the residents in Council property
	Quality, Accessible Services	The Council's housing service carries out many thousands of transactions with tenants and leaseholders each week and is one of the most significant front line Council services.
	Village Life	The Council has HRA properties in 94 out of 102 villages in the District and so makes a major contribution to village life
	Sustainability	The promotion of energy efficiency and the procurement of sustainable materials in relation to the maintenance and improvement of HRA properties is dependant upon there being adequate resources in the future
	Partnership	Part of HRA service is now run in partnership with the PCT.

Conclusions/Summary

19. The forward look at the HRA suggests that, whilst the required reduction in revenue expenditure already identified has been achieved; some further reduction may be needed in future years. It is, therefore, unlikely that there will be an opportunity to make up the anticipated substantial shortfall in funding for capital expenditure from revenue.
20. The information obtained so far from the Stock Condition Survey appears to indicate that significantly more funding than is likely to be available in 2009/10 and beyond will be needed to undertake the level of work required to meet statutory requirement and to maintain the decent homes standard.

Recommendation

21. It is recommended that Cabinet note the content of this report.

Background Papers: the following background papers were used in the preparation of this report: Item 6 of the 12 October 2006 Cabinet Agenda - Medium Term Financial Strategy – Interim Report; Item 3 of the 9th November 2006 Cabinet Agenda - Medium Term Financial Strategy – 2007/08 to 2011/12; Item 3 of the 9th June 2006 Cabinet Agenda – Housing Options Appraisal; HRA Business Plan 2004/05 to 2008/09 - June 2004

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