

Report to: **Extraordinary Meeting of the Council**
Date: **21st February 2007**
Report of: **Director of Finance & Corporate Services**
Subject: **Housing Revenue Account (H.R.A.) Budget for 2007/2008 & Future Years**
Ward: **All**

1. Purpose of the Report

- 1.1 To agree the Housing Revenue Account budget for 2007/8.
- 1.2 To agree the weekly dwelling average rent increase for 2007-2008.
- 1.3 To agree the Management Fee proposal for East Durham Homes (EDH) for 2007/8.

2. Consultation

- 2.1 In preparing the report various briefings have taken place with the Executive Committee, the Scrutiny Management Board, the Management Team and the Head of Financial Management.
- 2.2 In addition to the above the Head of Financial Management has briefed the Tenants and Residents Federation. The proposals have been placed on the Council's Web site. The report has also been distributed to EDH and includes details on the agreed HRA Management Fee with them.

3. Background

- 3.1 In determining the budget I have taken into account the Central Government weekly dwelling rent guidelines and broadly aligned the budget to be deliverable within these. In determining the budget we are advocating the retention of a minimum prudent level of reserves of £800K.
- 3.2 It is proposed that the Council endorse this minimum level of reserves of £800K and that strict financial stability is adhered to by all budget holders, however there will be a continual need for this level to be strictly and closely monitored.
- 3.3 Taking into account the financial performance of the H.R.A. in 2006/2007, as reported to meetings of the Executive during this financial year, the measures described later in those reports, together with the financial implications of the efficiency plans and 3 star strategy, it is estimated that the revised H.R.A. reserves at 31st March 2007 will be around £1.75M. It the estimation I have assumed that around £1.5m may be required in the current year subject to reports to the council. At this point the forecast for the 31st March 2008 is £1.75m.
- 3.4 Central Government has stated that they anticipate all dwelling rents nationally, will increase on average by 5% approx for 2007/2008. Members may recall that, for this year (2006/7), our average dwelling rents have parity with and are within central government guidelines.
- 3.5 Our strategy for 2007/2008 has been to maintain parity with, and keep within the guidelines and to do this would mean increasing all of our dwelling rents (including void properties) on average, by 4.9%, which would be within the Central Government rent increase announcement. This increase will vary depending on property type, and is as a result of the continuing process to restructure rents at an individual property level. This exercise particularly takes account of the results of the revisions 2 years ago by the Central Government, where they have rebased all Local Authority rents as

part of their revised rent restructuring methodologies, and therefore individual increases could fluctuate materially.

3.6 After allowing for a proposed weekly dwelling average rent increase of 4.9% and agreeing an HRA Management fee for EDH, the overall H.R.A. budget for 2007/2008 has been balanced without the use of any non specific HRA reserves.

3.7 If members of the Council agree to the proposal, all dwelling rents, on average, will be increased by 4.9 %, which equates to, on average, around £2.50 per week (48 weeks).

4. Position Statement and Option Appraisal

4.1 In respect of the Budget for 2006/7 regular monitoring statements have been presented to meetings of the Executive and based on the December 2006 monitor, reserves at 31st March 2007 are estimated to be, subject to their further use, around £1.75M and comment on this level will follow later in the report.

4.2 In respect of the Budget for 2007/8 I have included for an average dwelling rent increase of 4.9%.

4.3 I am pleased to report that full agreement has been reached on the EDH HRA Management Fee budget for 2007-8 in the sum of £10.482M. This has changed as follows: -

	£000's
Adjusted Fee for 2006-7	10236
Add Inflation @ 2.5 %	<u>246</u>
Fee for 2007-8 adjusted for Care Services transfer back to the Council.	<u>10482</u>

4.4 During the course of the 2007-8 financial year the Council will be presented with reports on the progress of the established Business Plans and the 3* star strategy to co-ordinate and oversee the activity within these budgets..

4.5. Those reports will reflect the above position and action plans will be needed to address all the value for money issues. In addition a number of areas for potential savings and service improvements have been identified and in some cases implemented, which should greatly assist budget holders to remain within budget.

4.6 In respect of Rent Income for 2007/8 this budget is reflective of an overall average 4.9% dwelling rent increase and additionally incorporates the financial effect of rent restructuring at an individual property level, together with our estimations on dwelling stock numbers. Reduced stock levels in turn reduces rent income and given the trends I have adopted a prudent approach in this area, particularly when calculating the budget sum which is exclusive of a financial windfall in the sum of £400k following the receipt of some late budget information from East Durham Homes. It is suggested that this amount could be considered to address pressures in the Capital Programme, for example part could be used to supplement the Aids and Adaptations budget. In the first instance this proposal could be considered by the Councils Capital Programme Working Group during the next financial year.

4.7 On Housing Subsidy, the Council's settlement was reasonable and acceptable when the draft proposals were received and this position has been confirmed when the final proposals were received at the end of last year. In addition the Council retains a Housing Subsidy claw-back account in the sum of £400K to deal with future subsidy adjustments, which can be significant. During 2007-8 the level in this account will be reviewed.

4.8 In terms of Transitional Protection in respect of Supporting People costs for existing Council tenants in situ at 31st March 2003 members have agreed for full protection to continue and therefore for 2007-8 I have provisionally included a budget sum of

£119K in respect of this. The future continuance of this protection has been reflected in the Council's Medium Term Financial Plan.

- 4.9 The present minimum prudent level for H.R.A. reserves is set at £800K and members will have noted their estimated position at 31st March 2007 at around £1.75M as described in para. 3.3. After careful consideration of the financial position I am prepared to continue to suggest a minimum working limit of £800K, provided that financial stability is retained and budget holders continue to adhere rigidly to their budgets. Whilst reserves are at their present level we do not consider that there is any further scope to utilise reserves to support the 2007/2008 mainstream budget process, particularly having cognisance of the possible use of reserves in future years. For next financial year and future years, following a stringent risk assessment, it is firmly considered that the reserve position should be closely monitored, particularly in relation to possible further calls on the reserve level. In view of this I have retained £800K as a minimum prudent balance.
- 4.10 It is recognised that EDH and the Council will in the future agree a Business plan to sustain the account in the longer term and that may require a further drawdown of reserves. Further reports will be brought for consideration when proposals are firmed up.
- 4.11 Appendices' 1-4 set out the estimated position on future including reserves over the next 3 years and will be subject to regular monitoring. The HRA operating Account is a Technical Accounting Statement based on the Resource Accounting framework. All of these statements include the preliminary work, which has now been completed on budget projections for future years, as part of our medium term plan approach and overall Budget Strategy. The Medium Term Plan for all Council and EDH costs includes an assumption that dwelling rents will increase by 4.9% per annum in future budget years. The Housing Strategy Group and the Settlement Planning Group will continue to oversee the long-term development of the Housing Business Plan and will monitor its progress, particularly in meeting the necessary financial efficiencies required to maintain future balanced budgets for the HRA. Over the next financial year an HRA Plan needs to be developed to sustain the account in the medium term
- 4.12 Details of the H.R.A. Prudential indicators for 2007/8 which are required under the Local Government Act 2003 are incorporated in Appendix 7/1 of the 2007/8 General Fund budget report.

5. Implications

5.1 Financial Implications

- 5.1.1 The financial implications are set out in the main detail of the report.

5.2 Legal Implications

- 5.2.1 The budget will be prepared according to statutory requirements.

5.3 Policy Implications

- 5.3.1 The budget is prepared in accordance with the Council's corporate plans and priorities.

5.4 Risk Implications

- 5.4.1 A risk analysis been undertaken and actions put in place to manage those risks.

5.5 Communications Implications

- 5.5.1 It is proposed that the proposals are placed on the Council's Web Site and that a statement is prepared for the Local Press.

5.6 *Corporate Implications*

5.6.1 The proposals are aligned to all of the Council's objectives and agreed priorities.

5.7 *Performance Management and Scrutiny*

5.7.1 The budget strategy has been discussed with the Scrutiny Management Board, the Resources Scrutiny Committee and was approved by the Executive Committee. Expected outcomes will be measured through the Council's Performance Management process.

5.8 *E Government*

5.8.1 The budget addresses and resources the Council's commitment to meeting the latest E Government targets including the Transformational Government requirements.

5.9 *Procurement*

5.9.1 The budget addresses procurement issues in order to meet existing government guidelines on procurement.

5.10 *Equality and Diversity*

5.10.1 None

6. Conclusion

6.1 Whilst considering this report members will have noticed throughout the report my cautious and prudent approach to the setting of next years budget which I consider is necessary particularly as the Council takes cognisance of the financial position of EDH and the final implementation of the three star strategy for EDH. Further reports will be presented to the Council's Committees during the financial year together with detailed financial monitoring reports.

7. Recommendation

7.1 The Council are requested to: -

7.1.1 Agree the HRA Budget proposals for 2007-8 and future years as set out in the report.

7.1.2 Agree the 2007-8 HRA management fee for East Durham Homes at £10.482M.

7.1.3 Agree the dwelling rent increase of 4.9% for 2007-8.

Background papers/Documents referred to in preparing the report:

Notification of Major Repairs Allowance and Housing Investment Programme-Govt. Office
Regular Budget Monitoring Reports to Executive
Budget Bids from Service Providers
Housing Subsidy Information for 2007/8(Draft and Final Determinations)

HRA 2007.8