REPORT TO:	**HOUSING AND COMMUNITY SERVICES COMMITTEE**	**AGENDA ITEM: 8**
DATE OF MEETING:	**3rd FEBRUARY 2011**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**DIRECTOR OF CORPORATE SERVICES**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (595811)**	**DOC:** u/ks/budget round 1112/policy reports/hra1112
SUBJECT:	**HOUSING REVENUE ACCOUNT BUDGET 2011/12 Including Proposed Rent Increase and Medium Term Financial Projections**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: HC 01**

1.0 Recommendations

1.1 That an average rent increase is considered for 2011/12 in accordance with Government guidelines for tenanted properties.

1.2 That the average rent increase is adjusted for individual tenants in accordance with the Rent Restructuring Formula.

1.3 That properties becoming vacant from 1st April 2011 onwards be relet at the government assessed formula rent.

1.4 That the proposed estimates of income and expenditure for 2011/12 for the Housing Revenue Account are considered and referred to the Finance and Management Committee for approval.

1.5 That the updated financial projection, including the associated assumptions and analysis for the Housing Revenue Account to 2021 is considered and noted.

1.6 That the outcomes of the current review of the HRA Business Plan are reported to the Committee in June 2011.

2.0 Introduction and Purpose of the Report

2.1 As part of the annual financial planning cycle, the report details the Housing Revenue Account's (HRA) base budget for 2011/12 together with an updated financial forecast to 2021. The report also sets out details of the proposed rent increase for consideration together with the Government's subsidy settlement for 2011/12.

The Principles of Housing Finance

2.2 Under the Local Government and Housing Act of 1989, local authorities are required to account separately for the income and expenditure associated with council housing. Accounting regulations specify what can be charged to the Housing Revenue Account (HRA). This is designed to ensure that costs associated with the provision of council housing are financed separately to all other costs of the Council.

2.3 The Council is also required to maintain a 10-year business and financial plan to ensure that the service is sustainable in the longer-term. The HRA cannot operate in deficit and must maintain a minimum level of general reserves as a contingency. For South Derbyshire, this minimum level is currently £1/2m as approved in the Council's Financial Strategy.

2.4 The principal source of income in the Council's HRA is rent from tenants. At a national level some authorities also receive grant (Housing Subsidy) from central government to supplement income. However, more than 2/3rds of authorities, including South Derbyshire, actually contribute income to the Centre.

2.5 Guideline rent levels are set nationally by the Government with rents at the Council currently being increased in phases (converged) year by year towards a national formula. This is known as rent restructuring.

2.6 Housing subsidy is based on a system that is in principle "self-financing," designed to balance nationally, where authorities assessed as having good stock, low costs and/or high rent levels pay money over to a **national pool**. This is then redistributed to authorities who are assessed as having poorer stock, higher costs and/or lower rent levels.

2.7 Almost 2/3 of 180 housing authorities across the country, including South Derbyshire, pay over to the national pool and are deemed to be in "negative subsidy." For this Council, the subsidy system assesses that income from rents is greater than expenditure on managing and maintaining the housing stock and takes this difference back to the national pool.

2.8 At a national level, it is considered that there is a surplus on the (national) HRA as rent income paid in is greater than that redistributed in allowances. This is estimated to be £381m in 2011/12.

2.9 Council's are also set targets to maintain homes to a specified minimum decent standard. In recognition of this, the Government ring-fences resources in the subsidy system to provide a capital allowance (the Major Repairs Allowance or MRA) to authorities to enable them to undertake rolling programmes of more significant improvements.

2.10 It has long been accepted that the current subsidy system is outdated and affords too much volatility for local housing authorities to plan effectively in the longer-term. During 2009 and 2010 the Government consulted with local housing authorities on a system of "self-financing."

2.11 This would entail authorities "buying out" of the national system by taking on a proportion of housing debt assumed to be outstanding at a national level, but all rent income would be kept locally.

2.12 The Council submitted a formal response to the Government's consultation in July 2010 after reviewing and analysing the effect of indicative debt settlements. The Comprehensive Spending Review (CSR 10) confirmed that the Government were committed to reforming the HRA and that this would be effective from April 2012.

2.13 Following the financial settlement announced for local government in December 2010 no further details emerged. However, it is considered that a revised debt settlement with updated details of a self-financing scheme will be issued shortly.

3.0 <u>Executive Summary and Overall Commentary</u>

The Financial Position Previously

3.1 When setting the HRA budget for 2010/11 in February 2010, the updated 10-year financial projection at that time, continued to show that the HRA would become unsustainable in the longer-term, i.e. would fall below the £1/2m minimum reserve level.

3.2 In 2010/11, the HRA has been operating with an underlying budget deficit, but has in recent years spent within and below its base budget. This has allowed HRA general reserves to remain at a relatively high level and these have been drawn down to finance the annual deficit. However, using reserves and relying on under spending to finance a budget deficit on an on-going basis is not sustainable.

3.3 The HRA's position is exacerbated through the uncertainties associated with the national subsidy system, together with rent restructuring policy, and in particular, how much is paid to the national pool in "negative subsidy." In addition, changes on an annual basis impact upon the financial projection and make forward planning much more difficult.

3.4 The approved budget for 2010/11 was set with an estimated deficit for the year of £439,664, to be financed from HRA reserves. The reserve balance was estimated at just under £1.9m by 31st March 2011.

3.5 The 10-year projection forecast that reserves would fall below the minimum level of £1/2m by 2015/16 based on financing this underlying deficit. The previous projection (October 2009) was forecasting 2016/17.

Reviewing the Business Plan

3.6 At its meeting on 4th February 2010 the Committee noted that a detailed review of the HRA's Business Plan would be undertaken during 2010/11 with the aim of seeking to project the business viably into the future.

3.7 As a result of the change in national government it was not clear until the Comprehensive Spending Review (confirmed in the "Local decisions: a fairer future for social housing" consultation paper of 22nd November 2010) that the new government were going to introduce the fundamental change to national housing finance proposed by the previous government.

3.8 It was therefore difficult to commit to the full HRA Business Planning process whilst national Government was still considering its policy. The HRA Business Plan process though commenced as soon as the policy direction became clear.

3.9 External support consultants were appointed and are now in place. The working group will have met three times by the date of this Committee.

3.10 The review of the Business Plan will take account of:

- Tenant priorities
- The investment requirements of the stock
- The affordability of capital debt;
- Service provision including staffing levels
- Potential new income streams

3.11 It will take a 30-year view as well as a concentrated look at the requirements for the next 5 years. The Plan is scheduled for completion in June/July 2011.

The Position Reviewed

3.12 In the meantime and in accordance with the medium term financial planning framework, the HRA's position was reviewed in October 2010. This took into account the following factors:

- Better than expected Budget Out-turn for 2009/10
- Late changes to the 2009/10 Subsidy Settlement
- Latest stock numbers
- Minor changes to 2010/11 subsidy allowances
- Delay in rent convergence and impact of lower rent levels
- Interest rates and inflation

3.13 Overall, this showed adverse effects of lower interest rates and rent convergence being offset by lower inflation provisions for pay and repairs. Existing base spending on costs were not changed with only the inflationary element in forward projections being reduced.

3.14 The net effect was that the revised projection showed the HRA falling below the minimum balance level of £1/2m by 2014/15, i.e. a year earlier than previously forecast.

Key Issue – Rent Convergence

3.15 This is a key variable in the Council's HRA as rent makes up the most part of income and also impacts upon the amount of negative subsidy. The Council's average rent is below the national formula by 9.5% (£61.22 compared to £67.68 respectively) for 2010/11. In principle, the quicker convergence takes place the greater the benefit to the HRA as the income base increases.

3.16 In setting the budget for 2010/11, the projection assumed that increases would occur in order to align with the national position with convergence by 2013/14. However, in reality many South Derbyshire tenants (around 2/3rds) would not converge within this timescale.

3.17 This is due to caps (set by the Government) that have been placed on increases in previous years for individual tenants as protection against large rent rises in any one year. These caps have been set based on the Government's assessment of affordability.

3.18 Consequently, many individual rents have fallen further behind their Formula Rent. Caps do not allow a rise sufficient each year to catch up the national formula by the prescribed date.

3.19 As the Council's average rent is still someway below the national formula this means that overall, the HRA's income base has being lowered compared to national assumptions which are reflected in the Council's negative subsidy payment, i.e. that payment is increased because the system assumes that the national rent is being charged.

3.20 For 2010/11 alone, this has cost the HRA approximately £156,000 in "lost" income; this then lowers the base position for future years with a cumulative effect.

3.21 Rent policy at a national level is reviewed and notified to local authorities on an annual basis. Invariably, this changes from year to year (including the rent convergence date) depending on the view of affordability taken by the Government. The target date for rent convergence has been changed several times.

3.22 The revised projection in October was updated based on the assumption that convergence for all tenants would not be completed until 2016/17, 3 years after what had been assumed nationally. This had a material affect upon the HRA as it reduced income in the projection by approximately £1.25m over 6 years.

Updated Position

3.23 Following the review of the HRA's base budget and the Government's subsidy settlement for 2011/12, together with their guidelines for rent levels next year, the 10-year financial projection has been updated.

3.24 This shows a slightly better position compared to October 2010. The HRA continues to operate in deficit. However, the first year that the HRA falls below the £1/2m minimum is pushed back to 2016/17, compared to 2014/15 previously.

3.25 This is mainly due to the proposed rent increase being greater than previously estimated; this has more than offset the additional payments in housing subsidy compared to that previously estimated. This is detailed later in the report.

Rents

3.26 Changes have once again been made to rent restructuring with the convergence date now being moved from 2013/14 to 2015/16 (5-years). This is to coincide with the Government's current proposals for self-financing.

3.27 In addition, the proposed average increase for South Derbyshire tenants for 2011/12 is **7.22%.** The average increase nationally has been set at 6.8%.

3.28 This level of increase is due to the current level of inflation (as measured by the Retail Price Index) which stood at 4.6% at September 2010 – the Government's base measure for raising rents in 2011/12.

3.29 On top of this, the Government has allowed a 0.5% real terms increase in line with previous years, plus for South Derbyshire, a further 2.12% increase to achieve rent convergence by 2015/16 (4.6% + 0.5% + 2.12% = 7.22%).

3.30 Many tenants will see increases above the average level, especially those who are still well below their formula rent. Over 1/3 of tenants will see increases in excess of 8% or £5 per week, but this will generate approximately £258,000 of additional income in the HRA compared to that previously estimated.

3.31 However, almost all tenants will now converge by the new date (assuming a 7.22% increase in 2011/12) and only 387 tenants (12%) will be constrained at an individual level. Therefore, it is estimated that full convergence will not take place until 2016/17.

3.32 As highlighted, the HRA is currently operating in deficit. Maximising income into the HRA is vital to ensure that the projected deficit can be offset as much as possible. An additional way of achieving higher income would be to relet properties becoming vacant at the full formula rent.

3.33 This has to be done so that the average rent does not increase above the Government Guideline to avoid penalisation through the Subsidy system.

3.34 Based on the turnover of stock over the last 12 months (191 properties) this policy would have raised a further £44,000 in overall rental income in a full year, with a cumulative effect in future years until all tenancies were at formula rent (currently estimated above at 2016/17).

3.35 Based on the proposals for 2011/12, this would increase the average rent by 28p per week, but well within the Guideline.

Subsidy

3.36 The Council's payment to the national pool will increase by 19% from £3,363,479 in 2010/11 to £4,011,638 in 2011/12 (around 39% of rent income). This is approximately £185,000 greater than estimated in the previous projection, mainly due to a higher guideline rent increase and lower capital costs.

3.37 The subsidy system assesses that the Council's HRA is in surplus, with the associated payment to the national pool being the largest expenditure item in the HRA.

Summary

3.38 The updated 10-year projection continues to show that eventually, the Council's HRA will become unsustainable. In the absence of any other changes, this will require a continuing review of all expenditure.

3.39 Previous reports to this Committee, together with a separate and independent benchmarking report detailed elsewhere on this Agenda, have highlighted a low cost base compared to other housing authorities, but with limited scope for additional investment. Infact, this current budget continues to assume a "standstill" position.

3.40 A review of the HRA Business Plan is currently being undertaken and it is planned to report recommendations in June 2011.

3.41 Whether the Council will be able to afford self-financing under Government proposals from April 2012 will be the key to future projections. Final details are expected shortly and the impact of these with recommendations for the future HRA will be reported to the Committee when known.

Proposed Rent Increase and Possible Implications for Self Financing

3.42 Many commentators believe that there is pressure on local authorities to adopt the fairly high increase in rents proposed for 2011/12. The large increase in guideline rents coupled with lower increases in management, maintenance and major repairs allowances means that overall, negative subsidy across the country will increase. Consequently, this will increase the national surplus.

3.43 This means that the tenanted market value of housing used to calculate the debt settlement in the current proposals for self-financing will also increase.

This will increase the opening debt for self-financing because it assumes that there are more rent surpluses in the system to service debt.

3.44 If guideline increases are not applied for 2011/12, this could affect an authority's ability to service their debt from 2012/13 (assuming self-financing is implemented). This is because the base rent position will be lower than Government assumptions.

4.0 Detail

4.1 The detailed figures are set out in 2 appendices as follows:

- **Appendix 1** - a summary of each main income and expenditure head within the HRA for 2010/11 to 2020/21, together with the yearly surplus/deficit and balance on the HRA's general reserve.

- **Appendix 2 –** an analysis of how housing subsidy has been calculated.

Formulating the 2011/12 Base Budget

4.2 The estimates are generally based on service levels in 2010/11 continuing and include any full year effects of previous year's growth and capital expenditure. However, any non-recurring and one-off items have been removed.

4.3 A provision for inflation has been provided for repairs, staffing/management cost, together with fees and charges. This is held as a central contingency in the HRA.

Forward Projection

4.4 The base budget has then been projected forward based on a number of assumptions regarding inflation, repairs spending and rent increases, etc. These are detailed later in the report.

Housing Subsidy (Appendix 2)

4.5 The amount of subsidy due to or paid by housing authorities is determined through a notional (or assumed) HRA based on a number of factors and formulae, concerning the housing stock. In summary, subsidy due to councils is made up as follows:

- Management and Maintenance Allowance (M&M), **plus**
- Contribution to capital/debt charges, **less**
- Assumed rental income (based on a Guideline Rent)

4.6 The system also allocates funding through a Major Repairs Allowance (MRA). This is funding to meet major and on-going improvements to the housing stock. Although distributed through the subsidy system, it is a capital allowance and the cash amount does not form part of the HRA's income and expenditure.

4.7 The indicators used to allocate funding are designed to assess the need to spend on repairs and management, taking into account the type and condition of the housing stock, together with the affordability of rent locally. However, this has to be done with an overall national amount allocated for subsidy by the Government.

4.8 The system is in principle “self-financing” designed to balance nationally, where authorities with good stock, low costs and/or high rent levels pay money over to the national pot. This is then redistributed to authorities with poorer stock, higher costs and and/or lower rent levels. In practice the national system has rarely been in balance and in recent years more money is paid into the system than is redistributed out.

4.9 Almost 2/3 of 180 housing authorities across the country including South Derbyshire, pay over to the national pot and are deemed to be in “negative subsidy.” For this Council, the subsidy system recognises that income from rents is greater than expenditure on managing and maintaining the stock and takes this difference back to the national pool.

The 2011/12 Subsidy Settlement

4.10 The main point arising from the national settlement for 2011/12 is that the national surplus based on independent calculations will increase to £381m from £100m in 2010/11. This is due to the large increase in guideline rents coupled with lower increases in management, maintenance and major repairs allowances.

4.11 M&M allowances have been increased by an average of 1.7% (money due to councils) whilst guideline rents have been increased by an average of 6.8% (money paid by councils). The MRA has been increased by an average of 1.5%.

Major Repairs Allowance (MRA)

4.12 The Council’s allowance per property has been increased from £618.72 in 2010/11 to £629.81 in 2011/12, an increase of 1.8%. This is slightly above the average increase nationally of 1.5%.

4.13 In cash terms (after allowing for a reduction of 40 properties through sales, disposals and demolitions) this equates to an increase of approximately £10,000. The total capital allowance for council housing in 2011/12 is £1,925,343.

Management and Maintenance (M&M) Allowances

4.14 The average increase nationally is 1.7% for both management and maintenance allowances. The Council’s increases are shown in the following table.

	MANAGEMENT	MAINTENANCE
Allowance 2009/10	£436.94	£912.36
Allowance 2010/11	£460.05	£930.13
Increase	**5.3%**	**1.9%**
National Increase	**2.3%**	**1.3%**

4.15 The increases are above the national average. Based on the number of council properties used for subsidy purpose (i.e. 3,055) this increases resources in 2011/12 by approximately £75,000 compared to 2010/11.

Guideline Rents

4.16 Guideline rents will increase on average nationally by 6.8% in 2011/12. The effect on the Council is shown in the following table – i.e. the Council's guideline rent as set by the subsidy system.

2010/11	£61.34 per week
2011/12	£66.41 per week
Increase	**£5.07 per week (8.3%)**

4.17 The Council's guideline has been increased well above the national average at 8.3%. In fact, this is the **3rd highest** increase in the Country and reflects that the Council's current rents are below the national average and its overall Formula Rent.

4.18 Based on the number of council properties and a 2% allowance for voids, this <u>reduces</u> resources in the notional account in 2011/12 by approximately £670,000 compared to 2010/11.

Overall Position

4.19 After allowing for changes in the other components, overall, the Council's base contribution to the national pool will increase by just under **£650,000** in 2011/12 to over £4m. This is approximately £185,000 greater than estimated in the previous projection, mainly due to the higher guideline rent increase and lower capital costs. A summary is provided in the following table

Analysis of Housing Subsidy and Payment to the National Pool	2010/11 £	2011/12 £	Change £
Management and Maintenance	4,176,084	4,249,796	73,712
Major Repairs Allowance	1,914,938	1,925,343	10,405
Capital Allowance	207,886	157,097	-50,789

Other Items (Covenant Interest)	12,365	2,248	-10,117
Less: Assumed Rental Income	(9,674,752)	(10,346,167)	- 671,415
TOTAL NEGATIVE SUBSIDY PAYABLE	3,363,479	4,011,683	- 648,204

4.20 The subsidy settlement was confirmed by the Government on 11th January 2011. This was after a period of consultation.

4.21 Many responses to that consultation including generic ones submitted by the Chartered Institutes of Housing and Public Finance, raised points regarding the level of rent increases and their potential impact on the housing benefit bill together with implications for the self-financing proposals, if the increases are not adopted.

Rent Restructuring and Proposed Rent Increase 2011/12

4.22 Rent restructuring was introduced in 2001/02, with the aim of basing rents on property values, local wages and the number of bedrooms in a property. In addition, it is also intended to eliminate differences between rents set by local social housing providers operating within the same area.

4.23 Rents for individual properties are calculated in accordance with a formula (called the Formula Rent) based on the above factors.

4.24 In recognition that the new system could substantially change individual rents over-night, the Government's policy was to phase in changes between actual rents being paid at that time and those calculated under the national formula. Full convergence was originally planned by 2011/12 (i.e. over a 10-year period).

4.25 Changes since then have updated the formula, in particular to reflect increasing property values since 2000. Caps on maximum increases have been implemented in some years and the convergence period has been moved to 2016/17, then out to 2023/24 and back to 2013/14 in 2010/11.

4.26 Changes have been made to reflect levels of inflation each year which has an impact on the Government's assessment of affordability. The principle is that high levels of inflation push convergence away, low or negative levels, brings the convergence date forward.

4.27 Extending convergence is designed to spread the effects of future increases to avoid hefty rent rises for individual tenants. This has been the case for South Derbyshire as on average, actual rents are well below formula rents.

Changes for 2011/12

4.28 The Formula Rent is changed each year based on the rate of inflation as measured by the Retail Price Index (RPI) in the September proceeding the next financial year. In line with Government policy, a further ½% is added to reflect a real terms increase.

4.29 RPI stood at 4.6% in September 2010. After adding the ½%, formula rents have been increased overall by 5.1%. In addition, convergence has been extended to 2015/16 (over 5-years) as this aligns to current assumptions in the Government's self-financing model.

4.30 Consequently, the Council's average formula rent increases from £67.67 to **£71.12** per week in 2011/12.

4.31 To adhere to the new rent convergence date, after applying the increase of 5.1%, individual tenants will be moved 1/5 of the way between their actual and updated formula rent subject to a maximum increase (the rental constraint or cap) set by the Government, calculated as follows:

- RPI + ½% + £2 per week

Actual Rent Increase

4.32 To align to the national system, the average actual increase for tenants in South Derbyshire for 2011/12 is therefore proposed at **£4.42** per week or **7.22**%. The average rent will rise from £61.21 to **£65.63** per week in 2011/12. This is below the Formula of £71.12, a difference of 8.4% (compared to 9.5% in 2010/11).

4.33 However, within this average increase, there is a range of changes and these are summarised in the following table.

Change (in pounds)				**Change (in percentage terms)**			
Rise Between	£2.00	£2.50	6	Rise Between	4.51%	5.00%	21
	£2.51	£3.00	75		5.01%	5.50%	102
	£3.01	£3.50	346		5.51%	6.00%	301
	£3.51	£4.00	432		6.01%	6.50%	514
	£4.01	£4.50	700		6.51%	7.00%	221
	£4.51	£5.00	450		7.01%	7.50%	469
	£5.01	£5.50	1,032		7.51%	8.00%	405
	£5.51	£6.00	10		8.01%	8.50%	1,018
Total Properties			**3,051**				**3,051**

4.34 The table shows that all tenants will see a rent rise with approximately 1/3 of tenants seeing a rise in excess of 8% or £5 per week. The highest increase is £5.86 per week.

4.35 Due to the proposed increase and the extension of the convergence period, almost all tenants will now converge by the new date (assuming a 7.22% increase in 2011/12). Only 387 tenants (12%) will be subject to the rental constraint which is much reduced from 2010/11 in particular, where almost 2/3 of tenants were "capped."

4.36 However, there is still a loss of income to the overall HRA, albeit much lower at just under £10,000 per year compared to £152,000 in 2010/11. However, full convergence for all tenants will not be achieved until 2016/17, one year after the national target.

4.37 The average increase of 7.22% adds approximately £258,000 into HRA resources compared to the previous projection which had assumed an average increase of 4.6%.

Flexibility

4.38 Although the Council does not have to follow the Government guideline for rents, the HRA would be penalised through the subsidy system by not following the Government's policy. In particular, where rents are set higher, the subsidy mechanism would withdraw grant for Rent Rebates and this would become an additional cost on the HRA.

4.39 Setting lower rents would not in itself reduce subsidy. However, it would reduce income in the HRA and put average rents further behind the formula. If the rent increase is set lower, every 1% point reduction equates to approximately £100,000 in reduced income per year to the HRA.

4.40 The effect of setting a lower rent is quite significant because it brings forward the year in which the HRA falls below the minimum reserve balance and eventually into deficit. The updated HRA financial projection which is detailed in the next section of the report highlights 2016/17 as the critical year. The following table illustrates the effect of various reductions.

Average Rent Reduced By:	Critical Year
1% to 6.2%	2014/15
2% to 5.2%	2013/14
3% to 4.2%	2012/13

4.41 In addition, there is concern amongst many commentators that by not adopting the increase for 2011/12, this could affect the debt settlement and its affordability under the current self-financing proposals. However, the final proposals are still to be determined.

HRA Financial Forecast to 2021 (Appendix 1)

4.42 One of the outcomes of the Stock Options Review in 2004 placed a requirement on the Council to plan and monitor its longer-term financial position over 10 years on the HRA (on a rolling basis) and to maintain at least its minimum reserve balance. The Council's financial strategy sets this minimum contingency reserve at £1/2m.

4.43 The updated projection shows a slightly improved position compared to that previously estimated. Although the HRA continues to operate in deficit, the first year under the £1/2m minimum level is 2016/17, compared to 2014/15 previously.

4.44 The main reason for this improved position is mainly due to the proposed rent increase being greater than previously estimated; this has more than offset the additional payments in housing subsidy compared to that previously estimated.

Summary of Main Assumptions and Risks

4.45 Clearly a forecast of this length does need to be treated with a certain degree of caution, and assumptions do invariably need to change in line with the annual subsidy determinations and rent setting policy.

4.46 The Council uses a financial model that automatically updates income and expenditure based upon changes to assumptions regarding the different variables. Some of these are interlinked.

4.47 The current assumptions in this projection remain largely unchanged from those detailed and reported in October 2010. Besides the changes to subsidy and rents as detailed earlier in the report, the proposed base budget for 2011/12 has built in some further changes, although these have effectively offset each other.

4.48 Compared to the last projection in October 2010, the HRA is approximately £80,000 per year better following the base budget review and subsidy settlement. This is summarised in the following table.

Changes Compared to the Previous Projection	**£'000**
Increase in rental income	258
Increase in income from Telecare Customers	59
Reduction in central support costs	20
Sub Total	**337**
Additional Negative Subsidy	-185
Reduction in Supporting People Contributions	-48
Additional costs of the Telecare Service (offset by additional income)	-24
Overall Reduction in Net Expenditure	**80**

Reduction in Central Support Costs

4.49 This relates to the HRA's share of the initial savings arising from the Corporate Services Partnership as reported to the Finance and Management Committee on 13th January 2011.

Supported Housing

4.50 The additional income from the extension of the Telecare Service and the reduction in Supporting People contributions, have previously been reported to Committee. It is uncertain at this stage whether any further reductions in Supporting People contributions will be passed down following the Government's Financial Settlement for Local Government.

4.51 A working group has previously been set up to review the Supported Housing Service. A report on options for future service delivery is subject to a separate report on this Agenda.

ICT Investment

4.52 It is considered that the current housing management and repairs system will require a major upgrade during 2011/12. Therefore, the budget for 2011/12 includes an amount of £70,000 as a provision to meet the associated costs. It is envisaged that the upgrade will take place between December 2011 and January 2012.

Housing Rents

4.53 In order to achieve rent convergence, the following assumptions have been built into the projection.

Year	Inflation Increase	Real Terms	Formula Increase	Total Increase
2012/13	2.5%	0.5%	1.9%	4.9%
2013/14	2.5%	0.5%	1.8%	4.8%
2014/15	2.5%	0.5%	1.7%	4.7%
2015/16	2.5%	0.5%	1.6%	4.6%
2016/17	2.5%	0.5%	1.2%	4.2%

4.54 These increases are in addition to the 7.22% proposed for 2011/12. They assume a base inflationary increase of 2.5% and an on-going national real terms increase of 0.5% per year.

4.55 These are average increases and as 2011/12 many tenants will see increases above the levels shown in the above table.

Reletting Properties at Formula Rent

4.56 Maximising income into the HRA is vital to ensure that the projected deficit can be offset as much as possible. An additional way of achieving higher income would be to relet properties becoming vacant at the full formula rent.

4.57 However, this has to be done so that the average rent does not increase above the Government Guideline to avoid penalisation through the Subsidy system.

4.58 Based on the turnover of stock over the last 12 months (191 properties) this policy would have raised a further £44,000 in overall rental income in a full year, with a cumulative effect in future years until all tenancies were at formula rent (currently estimated above at 2016/17).

4.59 Based on the proposed increase for 2011/12, the average rent would have increased by 28p per week from £65.63 to £65.91, but well within the Guideline of £66.41.

Housing Repairs and Maintenance

4.60 This is a demand led budget and consequently, spending can be fairly volatile. Over the past 3 to 4 years, spending has been within budget and to a certain extent this reflects past levels of capital investment in the housing stock.

4.61 The forward projection continues to assume the existing base budget uplifted only for an inflation allowance each year. Based on recent spending patterns, this is considered fairly prudent, but given the budget's potential volatility, this will continue to be reviewed on an on-going basis.

4.62 However, as previously reported, it should be noted that the latest (2009) Stock Condition Survey for Council Houses identified a £12m shortfall in resources to maintain the stock over the next 5-years. It is considered that this will place pressure on continuing to meet the Decent Homes Standard as early as 2012.

4.63 Capital spend (through the Major Repairs Allowance) is supported direct from the HRA Planned Maintenance Budget. This is a further reason why it is considered prudent that the current level of repairs budget overall is maintained, although under the current subsidy arrangements it is considered that the HRA is well short of meeting the projected investment needs of the stock

4.64 The local projection of the national self funding proposals, as they relate to South Derbyshire's HRA, were considered by full Council on 28th June 2010. Details are awaited from the Government on the extent to which the figures within the original proposal will change.

4.65 However, the June report indicated that the full investment requirements of the stock could be met under the self-funding proposals with the figures used at that time. The HRA Business Plan process will add more detail to that work and will be presented to Committee in the early summer 2011.

Overall Summary

4.66 Although the short-term position continues to remain fairly sound, the longer-term viability of the HRA is still very much questionable. This is compounded by the uncertainties within the current funding system.

4.67 Previous reports and an independent benchmarking report detailed on this Agenda, continue to highlight a low cost base overall compared to other housing authorities, but with limited scope for additional investment. Infact, this current budget assumes a “standstill” position.

4.68 Clearly, final details regarding the self-financing proposals will be a key factor. The Council responded to the consultation in July 2010 positively but cautiously based on analysis of debt settlement figures and principles of the system at that time.

4.69 It is anticipated fairly widely that the initial debt settlement will move upwards following the subsidy determination for 2011/12, together with some of the principles surrounding self-financing.

4.70 Of particular concern is the pooling of future capital receipts which may not be retained locally within the final proposals. This will all need to be considered carefully when further details are released.

5.0 Financial Implications

5.1 As detailed in the report

6.0 Corporate Implications

6.1 There are no other direct legal, HR or other corporate implications apart from that considered in the report.

7.0 Community Implications

7.1 The proposed budgets and spending within the HRA provides the financial resources to enable many of the on-going services and Council priorities associated with council housing to be delivered to the local community.

8.0 Background Papers

8.1 Department for Communities and Local Government - Housing Subsidy Determination (and associated papers) 2011/12, available at: http://www.communities.gov.uk/publications/housing/hrasdeterminations201112