
Report of the Director of Resources and the Director of Environment and Neighbourhoods

Executive Board

Date: 8 February 2008

Subject: Housing Revenue Account Budget 2008/2009

Electoral Wards Affected:

All

Specific Implications For:

Ethnic minorities

Women

Disabled people

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

EXECUTIVE SUMMARY

1. This report summarises the HRA budget and ALMO management fee distribution for 2008/09. Overall ALMO management fees have been held at their 2007/08 basis.
2. Changes to housing subsidy property allowances have seen a loss of subsidy of £7.4 m; in overall terms, the level of negative subsidy payable in 2008/09 will be £46.4m.
3. Communities and Local Government (CLG) has removed the 5% cap on average rent rises in operation during 2006/07 and 2007/08. Rent setting under rent restructuring has been re-introduced but with the convergence date extended beyond the original date of 2011/12. Under the Government's rent restructuring policy, the average 2007/08 rent increase for Leeds should be 7.8%, although the housing subsidy system assumes that the average rent increase will be no lower than 5.8%. The budget is based upon an average rent increase of 5.8%.
4. There have been no changes in the methodology of allocating management fees via the formulaic approach agreed in previous years apart from the introduction of a £4 per property allowance for Energy Performance certificate production.

1.0 Purpose Of This Report

1.1. This report sets out:-

- the Latest Estimate for 2007/08 and the Original Estimate for 2008/09 and comments on the major issues which have influenced the Budget.
- the proposals for rents to rise in 2008/09.
- the principles for allocating budgets to the ALMOs, via their Management Fees.

2.0 Background Information

2.1 The 2008/09 Original Estimate has been prepared at outturn prices which means that allowances for inflation have been included in the budget submission.

2.2 This report includes the ongoing financial arrangements in respect of the Arms Length Management Organisations (“ALMO’s”) which took responsibility for managing the Council’s stock of housing from February 2003. Following an ALMO review, including a city wide ballot of tenants, the management function has been delivered by three new ALMOs from 1st April 2007.

2.3 In accordance with the Council’s Policy and Budget Framework, decisions as to the Council’s budget and Housing Rent increases are reserved to Council. As such the purpose of this report is to propose a budget to Council, and thus the decisions recommended by this report are not eligible for call in.

3.0 Main Issues

3.1 Appendix 1 shows the projected Housing Revenue Account Summary for the 2007/08 Original Estimate, Latest Estimate 2007/08 and the 2008/09 Original Estimate.

Variation Original Estimate 2007/08 to Latest Estimate 2007/08

3.2.1 The original budget assumed that general HRA reserves would be £4.21m at 1st April 2007, although the final position was actually £0.5m lower at £3.71m due to the creation of the Housing Decency Reserve.

3.2.2 The latest estimate projects an unchanged net budget position. However, the main reasons for the movement in 2007/08 are:

- a) ALMO performance incentives – an additional £0.6m has been passed to the ALMOs for improved void performance and CPA.
- b) SCA allowances – the figure of £34.8m contained in the final 2007/08 subsidy determination was overstated and has now been corrected by CLG to £30.581m.
- c) Expenditure of £350k for Little London Structural surveys, £200k for Swarcliffe Environmental Works and £125k for Easel demolition (borrowing) costs are now

reflected in the supplies and services and capital budgets. This total spend of £675k is funded from the specific reserves existing at 1st April 2007.

- d) Property and void numbers – Property numbers are higher than originally projected due to lower RTB sales and demolitions, and lower void turnover. As a result, additional rental income of £0.8m is currently projected – this is partly offset by higher void performance incentive payments to the ALMOs (£0.6m).
- e) There is additional projected income of £0.4m from the ALMO bad debts penalty, £0.3m from leaseholders and £0.3m from the IT ALMO SLA.
- f) Latest subsidy calculations show that the compensation for restricting rent rises to 5% (RCA) may have been overstated by CLG by £1m leading to a higher negative subsidy figure.
- g) Disrepair - The number of claims for disrepair has been steadily falling throughout the year with the average number of cases per month now around 9. Accordingly it has been possible to further reduce the provision required to meet these claims by £0.025m.
- h) In line with recent write-off trends and reductions in the amount of arrears and Housing Benefit (HB) overpayments, the bad debts provision has been adjusted downwards by £1.1m.

3.3 Variation Original Estimate 2007/08 to Original Estimate 2008/09

3.3.1 The budget for 2008/09 has been constructed on the achievement of working balances of £3.7m at 31 March 2009, which represents around 2.5% of the non-ALMO costs including negative subsidy. This is considered to be an acceptable minimum level of balances following the transfer of services and responsibilities to the ALMOs. The transfer of services also includes an element of transfer of risk and the ALMOs are able to retain their own working balances.

3.3.2 The reasons for the movement from 2007/08 to 2008/09 are:

- a) The negative subsidy the Council is required to pay back to the Government has increased significantly following the housing subsidy settlement. The Council revenue contribution per property in negative subsidy has increased from £1,008 (net of Rental Constraint Allowance) per property to £1,154 which is a £7.4m increase. Additionally falling interest rates and reduced premiums and discounts have generated a cost of £2.1m, although this is offset by reductions in actual capital charges.
- b) There is no proposed increase in the management fee to ALMOs, apart from the disaggregation of budgets during the year, although further provision has been made for ALMO Performance Incentives of £0.271m to reflect the ALMO's contribution to the CPA assessment.
- c) Finalisation of the SCA allowances payable through the Housing Subsidy grant to the ALMOs is still awaited from CLG.
- d) The transfer of HR and payments staff to the new Business Support Centre during 2007/08, along with the revised treatment of regeneration staff as an internal

recharge rather than direct employee cost, has resulted in a reduction of £0.8m in employee costs.

- e) For the staff directly employed within the Housing Revenue Account, a pay award of 2.0% has been provided, which together with other inflationary increases means additional costs of £0.28m, plus FRS17 pension adjustments of £0.17m.
- f) Increases in net rentals & service charges are expected to generate an additional £5.9m, details of which are given below in section 4.
- g) The number of claims for disrepair has been steadily falling throughout the year with the average number of cases per month now around 9. Accordingly it has been possible to further reduce the provision required to meet these claims by £0.025m.
- h) Improved collection of current and historical debt has allowed a reduction of £1.026m in the cost of bad debts;
- i) Costs relating to support & other services reflect a £2.36m increase. This increase reflects increased costs relating to customer services (£1.235m), and £1.1m PPPU and regeneration charges for the Little London and Beeston Hill & Holbeck PFI schemes. There is an ongoing review of the appropriateness of the support charges to the HRA and any changes arising from this review will be phased in over later budgets.
- j) After an increase in the unitary charge for Swarcliffe (£0.315m), a budgeted contribution of £0.5m (£0.8m 2007/08 OE) will be made to the sinking fund which represents the net surplus made in the year.
- k) Interest rates have dropped marginally, but the major change in the capital budget is the deferment of the planned repayment of unsupported heat lease borrowing by one year to fund budgetary pressures in 2008/09.

3.4 Swarcliffe PFI

- 3.4.1 There is also a contribution to the Swarcliffe PFI sinking fund of £508k in 2008/09. The contract for Swarcliffe PFI commenced on 1 April 2005.
- 3.4.2 This reflects the net surplus made in year being the excess of income, including government grant and the unitary charge. This is as a result of the way in which the Government allocates grant support for PFI which results in surpluses in the early years of such schemes.
- 3.4.3 The reserve is to be retained to fund deficits in future years.

4.0 **Rentals**

- 4.1 The level of Council House rents are controlled through the application of the Government's Rent Restructuring programme.
- 4.2 The Government's Rent Restructuring Policy is based upon the following principles:
 - social rent should remain affordable and well below those in the private sector;

- social rent should be fairer and less confusing for tenants;
- there should be a closer link between rent and the qualities which tenants value in properties; and,
- differences between the rent set by local authorities and Registered Social Landlords (RSL) should be removed.

4.3 Rent Restructuring

- 4.3.1 The intention of the rent restructuring policy is that tenants across the country should be paying comparable social rents, allowing for variations in type of property and 'economic' circumstances. A formula has been devised to enable rents across the country to move to 'convergence' by the extended date of 2016/17.
- 4.3.2 In order for the Council's rents to reach convergence with the rest of the country, rents need to increase by 7.8% in 2008/09. This rental increase is 'relatively' high in order to 'catch up' after the dampening effect caused by the two years of 5% rent caps in 2006/07 and 2007/08, and that Leeds's rents are comparatively low compared to the rest of the country; rents should have risen by 7.3% in 2007/08 if this cap of 5% hadn't been implemented by the Government. Assuming no changes in inflation rates, then rents would also rise by around 4.9% in 2009/10; if rents are raised by 5.8% in 2008/09, then the equivalent rise in 2009/10 would be 6.5% to 'restore' convergence.
- 4.3.3 It should be noted that in calculating the Housing Subsidy grant, the Government has assumed that rents will increase by 5.8%, called the guideline rent. In making this assumption, the Government have given the Council the 'freedom' to raise additional rental income over and above the rental income it takes back through the subsidy system, through application of the 'convergence' rent of 7.8%.
- 4.3.4 Subsequently, Government policy implies a rent increase that should be 7.8% under rent restructuring, but no lower than 5.8% under the Housing Subsidy system; a 5.8% rent increase impacts upon the ability of the HRA to resource any uplift in the ALMO management fee.

4.4 Rent Compensation

- 4.4.1 After two years during which rent increases have been capped at 5%, CLG have informed Authorities that this cap is no longer applicable. Rents are again to be set under the rent restructuring formulae in accordance with their rent restructuring policy, but with a convergence date put back to 2016/17; this convergence date is still subject to review and may change. As a consequence of this removal of the 5% cap, the compensation mechanism (Rental Constraint Allowance) in operation during these two years has been removed. Instead, authorities are expected to replace the loss of this compensation through the newly restored 'freedom' to raise rents above their guideline rent.
- 4.4.2 Compensation will no longer be paid in the year in which the rental loss has been incurred. Instead, CLG have proposed that compensation will be based upon the lost rent incurred through capping rent increases by inflation + a half % (4.4%) +/- £2.00 per week, and will be recognised in the following year's subsidy determination.

4.5 Overall changes in rents

- 4.5.1 Following the application of the seventh year of the Government's rent restructuring policy, the basis of which is partly determined by the value of properties & the number of bedrooms in each property, would mean that average rents would rise by 7.8%, representing an average rent increase of £4.23 over 48 weeks. Individual tenants are protected from large increases in rent in that the formula only allows rents to rise by inflation + a half % (4.4%) +/- £2.00 per week.
- 4.5.2 However, it is proposed that a lower average rent 'cap' of 5.8% is applied, representing a lower average rent increase of £3.16 over 48 weeks; although the effects on individual tenants will vary according to the restructuring formulae.
- 4.5.3 Consequently, rental income from housing stock is now budgeted to increase by £8.7m offset by a reduction of £2.8m through changes in property numbers.
- 4.5.4 The comparative figures are:

	<u>2007/08</u>	<u>2008/09</u>		
Actual Rent (average)	£54.54	£57.70	+5.8%	+£3.16

- 4.5.5 Rentals from garages (currently £5.25 per week) fall outside the rent restructuring rules and normally rise in line with average rental increases. It is proposed to increase garage rents by 5.8% to £5.55 per week.
- 4.6 Service Charges
- 4.6.1 Service charges, which fall within the constraints of rent restructuring, are subject to the same 5.8% average increase as rents.
- 4.6.2 It is the intention of the Government's rent restructuring policy that service charges will be disaggregated by the end of the ten year implementation programme (2010/2011) and that rental income will reflect purely management & maintenance of properties. This is not currently the case and will need to be kept under review between now and the end of rent restructuring.

5.0 Housing Subsidy

- 5.1 Housing subsidy is a notional calculation based on what the Government estimates we ought to spend on housing management and maintenance plus capital financing costs, offset by our guideline rental income & assumed mortgage interest receivable. Where this is negative we have to pay money to CLG. Leeds is a negative subsidy authority.
- 5.2 Allowances by property compared with the current year are:

<u>Housing Subsidy</u>	<u>2007/08</u> £	<u>2008/09</u> £	<u>change</u> £	<u>change</u> %
Guideline rent	(2,645.18)	(2,799.03)	(153.85)	5.8
Rental Constraint Allowance	113.53	0.00	(113.53)	(100.00)
Management allowance	537.68	564.86	27.18	5.1
Maintenance allowance	985.87	1080.49	94.62	9.6
Management & maintenance	1,523.55	1,645.35	121.80	8.0
Negative subsidy per property	(1,008.10)	(1,153.68)	(145.58)	14.4
Major Repairs Allowance (MRA)	581.10	636.10	55.00	9.5
Total allowances	(427.00)	(517.58)	(90.58)	21.2

5.3 The overall impact on subsidy, after allowing for changes in property numbers and unit allowances is as below:

	<u>Final</u> <u>Determination</u> <u>2007/08</u> £K	<u>Final</u> <u>Determination</u> <u>2008/09</u> £K	<u>Change</u> £K	<u>Change</u> %
Management & maintenance	93,168	98,810	5,643	6.1
Guideline rent & RCA	(151,739)	(164,754)	(13,015)	8.6
	(58,571)	(65,944)	(7,373)	12.6
Capital allowances	21,659	19,558	(2,100)	(9.7)
Negative subsidy	(36,912)	(46,386)	(9,473)	25.7
ALMO allowances	30,581	30,581	0	0.0
PFI	6,097	6,097	0	0.0
	(234)	(9,708)	(9,473)	4,039.0
MRA	34,702	37,294	2,592	7.5
	34,468	27,586	(6,881)	(20.0)

5.4 Initial expectations were for a two year settlement covering 2008/09 and 2009/10. However, this determination is only for 2008/09 and a new determination will be issued for 2009/10. On the 12th December 2007, Housing Minister Yvette Cooper announced a review of the Housing Revenue Account subsidy system. This review will make its final report in spring 2009, setting out a way forward for the subsidy system, rents policy across all social housing, and spending needs for council housing; earlier advice is expected in 2008 to inform decisions about council rents and subsidy determinations for 2009/10 and 2010/11.

5.5 Subsidy trigger (2007/08)

5.5.1 Within subsidy, there is a possible variation in the basis of calculation of property numbers whereby if stock changes by 10% or 3,000 properties over two years, subsidy is then based on average stock in the year, whereas if we fail to hit that trigger, subsidy is based on property numbers at the start of the previous year (i.e. 1

April 07 for 2008/09). Property numbers need to fall by at least 1,802 to meet this trigger in 2007/08.

5.5.2 The current projections for 2007/08 are for sales of 469 properties (393 actually sold between 1 April and 31 December) compared with a total of 1,191 sold in 05/06 and 665 in 06/07. Additionally, demolitions of 578 are projected and other changes of 80; sales of 420 properties are currently projected for 2008/09.

5.5.3 There are a number of factors affecting RTB sales, not least:

- Property valuations are increasing generally.
- Decency work is being undertaken and it may be that potential applications are held up awaiting completion of this work. This will have an impact on valuations as well.
- The maximum discount in this region is £24,000 for both flats and houses, meaning that any increase in valuations is met by the potential purchaser.
- Discounts are also affected by the amount of expenditure on a property in the years prior to sale. Only approx. half a dozen RTBs are affected by this each year, although with expenditure on decency this may increase.
- From 18 January 2005 new tenants have to have a five year qualifying period. This is most likely to have an impact from 08/09 onwards as these tenants would have been entitled to exercise RTBs under the old rules at that point.

5.5.4 The RTB sales are a major factor in achieving the subsidy trigger. As a result of the reduction in RTB numbers this year, for the reasons outlined in 5.5.3., it is projected that the subsidy trigger will not be achieved resulting in an increase in negative subsidy of £2.0m.

5.5.5 Should we hit the subsidy trigger, then negative subsidy will decrease by £2.0m, although there will be a partial offset through an decrease in the MRA of £1.1m; MRA resource is related to housing capital expenditure.

6.0 ALMO Management Fees

6.1 The Management Fees to the ALMOs are divided into three elements: one for repairs; one for management costs; and a third category for grounds maintenance was introduced in 2005/2006. The principles for allocating repairs & management budgets to the ALMOs was established in 2003/2004, broadly based on the national housing subsidy model, and the allocation of grounds maintenance is based on land area.

6.2 The total repairs budget for the ALMOs takes account of the percentage increase given by the Government for repairs, adjusted for the reduction in stock. The ALMOs management costs are allocated in accordance with a formula, which follows the same factors which the Government use to allocate resources to Local Authorities and thus, in effect, treats each ALMO as if it were a mini HRA. The formula allocates resources to each area based on the numbers of properties, factors which acknowledge the additional costs associated with flats, and the extent of crime and social deprivation in an area.

6.3 It is proposed to hold the 2008/09 ALMO management fee at the 2007/08 level. The impact on the HRA budget is shown at Appendix 1.

6.4 Disaggregation

6.4.1 After discussions with the ALMOs, it has been agreed to disaggregate Emergency tree work (£102k) and grant funding RTGs (Resident Tenant Groups, £17k).

6.5 Performance Incentives

6.5.1 A number of performance incentives have been put in place to reward ALMO performance, especially in relation to contributions to a successful CPA assessment. Additional Performance Incentives are in place for arrears & voids management.

7.0 Risks

7.1 The following section sets out the significant risks which, should they materialise would affect the budget. The HRA maintains a level of reserves in order to meet the impacts of such risks should they crystallise.

7.2 These risks are reviewed throughout the year as to likelihood and action taken to mitigate any impact wherever possible.

- In year changes to subsidy regulations.
- ALMOs are not able to fully validate the base data used in the subsidy claim.
- ALMOs may incur additional costs that require additional financial support from the HRA.
- The level of additional support required by the ALMOs may not be sustainable in the long term future.

8.0 Recommendations

8.1 Executive Board is asked to recommend to the Council the adoption of the resolutions below -

- (i) that the budget be approved at the average rent increase figure of 5.8%.
- (ii) that service charges are increased in line with average rent rises;
- (iii) that the charges for garage rents be increased to £5.55 per week.

Appendix 1

Housing Revenue Account Draft Budget - 2008/2009

Summary Budget

	<u>2007/08 OE</u> £000s	<u>2007/08 LE</u> £000s	<u>2008/09 OE</u> £000s
Employees	9,755	9,887	9,401
Premises	1,721	1,724	1,798
Supplies & Services	15,080	15,551	12,960
Transport	231	232	230
Internal charges	7,938	8,065	10,383
Provisions	3,435	2,230	2,325
Capital	21,029	22,622	18,735
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	59,189	60,310	55,832
internal income	(1,216)	(1,216)	(1,216)
rents	(153,872)	(154,701)	(159,854)
recharges to ALMOs	(6,151)	(7,019)	(6,602)
other income (inc. service charges)	(7,424)	(7,832)	(7,129)
	<hr/>	<hr/>	<hr/>
	(109,474)	(110,457)	(118,968)
Housing Subsidy	36,917	37,917	46,386
ALMO Allowances	(34,839)	(30,581)	(30,581)
PFI allowance	(6,097)	(6,097)	(6,097)
	<hr/>	<hr/>	<hr/>
	(113,493)	(109,218)	(109,260)
contribution to pensions Reserve	(41)	(41)	(113)
contribution to PFI Reserve	801	801	508
Contribution from specific reserves	0	(675)	
Contribution from ALMO Insp . reserve	0	(1,000)	
	<hr/>	<hr/>	<hr/>
	(112,733)	(110,133)	(108,865)
<u>Payments to the ALMOs</u>			
Management fees	76,844	76,844	76,844
Disaggregation of budgets	0	0	119
Distribution of ALMO Inspn. reserve	0	1,000	
Performance incentives	1,050	1,708	1,321
SCA Allowances	34,839	30,581	30,581
Budgeted Deficit	<hr/>	<hr/>	<hr/>
	0	0	0
<u>Reserves</u>			
General Reserves b/f	3,712	3,712	3,712
In year projected outturn	0	0	0
Budgeted deficit	0	0	0
	<hr/>	<hr/>	<hr/>
	3,712	3,712	3,712