Report to the Cabinet

Report reference: C-124-2007/08.
Date of meeting: 10 March 2008.

Epping Forest District Council

Portfolio: **Housing.**

Subject: **Housing Revenue Account Five-Year Forecast.**

Responsible Officer: **Peter Maddock** **(01992-564602).**

Democratic Services Officer: **Gary Woodhall** **(01992-564470).**

Recommendations:

(1) That the Housing Revenue Account (HRA) Five Year Forecast up to the year 2012/13 be noted;

(2) That HRA balances be reduced to £3.9m by 2013, and maintained within the range of £3m to £4m;

(3) That the reduction of HRA balances recommended in 2 above be achieved by means of £300,000 additional Revenue Contributions to Capital Outlay (RCCO) each year, and that these additional contributions be included in the next Capital Programme review; and

(4) That the Housing Scrutiny Panel be asked to look at the resourcing requirements for accelerating the Off Street Parking on Council Housing Estates programme, and the issues surrounding enforcement against unauthorised parking.

Introduction:

1. Each year the Council produces a Housing Revenue Account (HRA) business plan. This plan is designed to be a forward looking document that includes a thirty-year financial plan, giving a broad-brush view of the potential state of the HRA finances over a long period of time.

2. Clearly, the plan cannot accurately predict actual spend and available resources due to the length of time involved. However it does gives an indication of the likely direction of HRA finances in the medium term, and needs therefore to be borne in mind when considering future expenditure.

3. It is important, particularly prior to the start of a new financial year, to look at the next five years in a little more detail to see what expenditure patterns are likely and what resources might be available.

HRA Five Year Forecast:

4. The subsidy settlement for 2008/09 represented a completely different direction from the 2007/08 determination. Subsidy payable was increased by 22.6%, roughly one third of this increase being due to the abrupt withdrawal of the Rental Constraint Allowance (RCA). RCA was introduced in 2006/07 as a transitional allowance for the loss of rental income, following the rebasing of the rent level calculation factors and the imposition of a 5% cap on rent rises.

5. In October 2007 the Department of Communities and Local Government (DCLG)

launched a consultation on the direction of rent restructuring from 2008/09 onwards, suggesting either an extension of the deadline for rent level convergence to 2016/17 (combined with tighter settlements for housing subsidy) or a return to the previous caps and limits regime for rent rises, aiming for the original 2011/12 convergence deadline. The final determination did not contain any definite pronouncements, leaving local authorities to make their own choices on rent rises and convergence dates. The Council chose to continue with its current rent strategy of working towards rent convergence in 2011/12, which required a 6.7% rise in average rent. This will result in additional income of around £199,000 in 2008/09 when compared to the 5.82% increase suggested by convergence in 2016/17.

6. The Housing Portfolio Holder has considered how this additional revenue could be best utilised. An increasing problem is emerging on council housing estates with unauthorised car parking on grassed areas, which is both unsightly and potentially dangerous. The Portfolio Holder is therefore proposing that the Housing Scrutiny Panel be asked to consider:

(a) the approach to be taken regarding enforcement against unauthorised parking; and

(b) whether all or part of the additional resources could be utilised to accelerate the Off Street parking programme.

7. The projects will need to be funded jointly. Currently the General Fund contributes 48% and the HRA 52%. However a review of this split has been carried out and from 1 April 2008 this should be amended to a 49%:51% split respectively. The funding from the General Fund will need to be in the form of unallocated useable capital receipts the balance of which is estimated to be £17.32million at 31 March 2012.

8. There has been little expenditure in recent years and as a result the total allocation in 2008/09 now stands at £288,000. It is likely that some works will occur during 2008/09, however it is thought that the existing allocation will be sufficient. However in years from 2009/10 monies could be allocated from the additional RCCO now put forward.

9. The forecast itself contains a number of assumptions. Supervision and Management General costs are mainly employee related, and are inflated by the 2.5% assumed for future pay awards. Supervision and Management Special costs have recently seen increases in excess of inflation, mainly due to energy costs. Given the current level of RPI (4.1% in January 2008), an average general inflationary rise of 3.9% has been used, as the generally accepted forecast is for levels of inflation to remain high in the short term and to reduce by the end of the five-year period. Rental income is assumed to increase by an average of 5.6% from 2009/10, but the guideline rent has been assumed to increase by the same factor.

10. The balance at the end of 2007/08 is expected to be £6.2m, £0.20m higher than was predicted at this point in 2006/07, and the balance at the end of 2012/13 is expected to be around £5.1m if no action is taken. The Balance at 31 March 2008 has been capped at £6.2m by increasing RCCO in the current year. This will ensure that the Council is able to apply for a direction to capitalise the 2008/09 pension deficit payments relating to HRA staff. If the balance were to exceed £6.209m then the parameters set to enable capitalisation to take place would be breached. The previous forecast showed balances at the end of the forecast (31 March 2012) of £4.1m after allowing for additional revenue contributions to capital expenditure (RCCO) of £1.0m during the forecast period.

11. The latest thirty year HRA forecast, due to be published in March 2008, suggests that the HRA would fall into deficit in 2027/28, a year later than predicted in the previous forecast. The biggest influences on the HRA expenditure are Housing Subsidy and the dwellings rent income, neither of which are under the Council's complete control. In addition, there is a thorough review of the Housing Subsidy system currently underway, with a suggestion that local authorities might be given the option to negotiate their exit from the subsidy system; it would therefore be unwise to base any decisions on the future of the HRA on forecast subsidy settlements.

12. It is suggested that the policy agreed last year (that balances should be maintained within the range of £3m to £4m) should be re-affirmed, and that the balance should be reduced to around £3.9 million by 31 March 2013.

13. The most prudent approach to reduce balances to the required level by the end of the forecast period would be to introduce more RCCO; if HRA finances were to be severely worsened, cuts in RCCO would be less damaging than removing established revenue budgets. It is therefore proposed that £300,000 in additional RCCO be introduced for each of the four years beginning in 2009/10 and ending in 2012/13. It is also proposed that it be investigated whether some or all of this additional funding should be used to accelerate the Off Street Parking on Council Estates programme.

Statement in Support of Recommended Action:

14. The current forecast for HRA finances predict that balances will remain near the current high level of around £6m. It is suggested that ideally balances should range between £3m to £4m. In order to achieve this, an additional £300,000 RCCO per annum has been introduced into the forecast, with the schemes to be funded by such contributions to be determined as part of the next Capital Programme review. The deficits forecast from 2008/09 onwards result mainly from the additional RCCO and are essential for the gradual reduction in the cumulative HRA surplus. The affordability of this level of expenditure is based on a number of assumptions, and will need to be reviewed again next year.

Options considered and rejected:

15. The accumulated balance on the HRA could be reduced by increasing contributions to the Housing Repairs Fund (HRF). However, the current contribution of £6.0m per annum is sufficient to fund forecast expenditure over the next five years, and there is no obvious need to increase HRF expenditure.

16. Additional RCCO could be used to replace funding from the Major Repairs Reserve rather than to increase total expenditure. This would in turn increase the balance on the Major Repairs Reserve, increasing the interest earned on HRA surpluses, and would leave the underlying issue of high balances unaddressed.

17. Additional ongoing revenue expenditure could be introduced. However, if the HRA financial position were to deteriorate, removing the budget for planned revenue expenditure would cause more problems than revoking RCCO, which is funding for one-off capital expenditure.

Consultation Undertaken:

18.

Resource implications:

Budget provision: As set out in the report.
Personnel: Nil.
Land: Nil.

Council Plan/BVPP reference :
Relevant Statutory Powers :

Background Papers:
Environmental/Human Rights/Crime and Disorder Act Implications:
Key Decision Reference (if required): Key Decision – HRA Five-year Forecast.