Report to the Cabinet

Report reference: C-110-2008/09.
Date of meeting: 9 March 2009.

Epping Forest District Council

Portfolio: **Housing.**

Subject: **HRA Five-Year Forecast.**

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

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

Recommendations/Decisions Required:

(1) That the Housing Revenue Account (HRA) Five Year Forecast up to the year 2013/14 be noted;

(2) That HRA balance be adjusted to be between £3.0m and £3.1m by 2014, and maintained within the range of £3m to £4m; and

(3) That HRA balances recommended in 2 above be achieved by means of a £1,350,000 transfer of funding between Revenue Contributions to Capital Outlay (RCCO) and the Major Repairs Reserve (MRR) in 2011/12 and 2012/13 thereby increasing the Balance on the HRA and reducing the Balance on the MRR.

Executive Summary:

The report provides a commentary on the HRA five year forecast and proposes a course of action that is expected to ensure that over the next five years the HRA has sufficient funds available to it.

Reasons for Proposed Decision:

To note the Housing Revenue Account (HRA) Five Year Forecast up to the year 2013/14 and agree the strategy for the levels of HRA balances to be maintained.

Other Options for Action:

Other options involve different permutations of fund switching between the HRA and MRR some of which would produce a balance between £3 m and £4m however the suggested funding meets the recommended criteria and on that basis is proposed.

Report:

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.

4. The subsidy settlement for 2009/10 was better than had been predicted this time last year. The forecast did not allow for any compensation through the Housing Subsidy system for the capping of rents under the 2008/09 settlement as at the time there was no clear scheme of compensation in place. Since that time the DCLG has agreed to compensate authorities a year in arrears. This is based on a return made by the Council comparing constrained and unconstrained rents. The subsidy settlement for 2009/10 includes an allowance for this of around £540,000 relating to 2008/09.

5. The level of Revenue Contributions to Capital (R.C.C.O) included within the forecast is a major influence on the level of balance on the account. Whilst over the next couple of years this can be afforded, the reduction in expected investment income is going to mean the account falling into deficit quite quickly unless interest rates pick up or RCCO is curtailed somewhat.

6. In order to maintain balances within the agreed £3m to £4m range it will be necessary to reduce RCCO by £300,000 in 2011/12 and £1,050,000 in 2012/13 by switching funding to the Major Repairs Reserve (MRR) and possibly discontinue it altogether after 2013/14. Whilst this might seem dramatic it needs to be borne in mind that based on current predictions the MRR is likely to reach £7.6 million by 2012/13 even after allowing for the additional MRR funding above.

7. After 2013/14 the HRA capital programme will need to include a greater level of financing from the MRR. The Major Repairs Allowance (MRA) is likely to be in excess of £5 million per annum by that time, which means in the long term the HRA Capital Programme will need to be set at or close to this level. However because of high MRR balances there is scope to invest more in the housing stock.

8. It is also worth noting that whilst the MRR is used to fund capital expenditure and assuming that expenditure does not greatly exceed £5.5 million, the HRA balance is likely to build up again and at some point beyond 2013/14 RCCO can again be introduced into the Capital Programme.

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. However inflation has fallen significantly from its peak in September 2008 (5%) to 0.1% in January 2009 and energy costs have also fallen. It is difficult to assess quite what level of inflation might be expected in the longer term, however an average general inflationary rise of 2% has been used. Rental income is assumed to increase by an average of 4% from 2010/11, but the guideline rent has been assumed to increase by the same factor.

10. The balance at the end of 2008/09 is expected to be a little under £6.2m, in line with the original estimate. If no action is taken the balance at the end of 2013/14 is expected to dip below £3m. The previous forecast showed balances at the end of the forecast (31 March 2013) of £3.9m after allowing for additional revenue contributions to capital expenditure (RCCO) of £1.2m during the forecast period.

11. The latest thirty year HRA forecast, due to be published in March 2009, suggests that the HRA would fall into deficit in 2029/30, two years 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. The review of the Housing Subsidy system is still ongoing, 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 replacement of £300,000 and £1,050,000 R.C.C.O. with funding from the MRR in 2011/12 and 2012/13 to bring the balance to around £3.1 million by 31 March 2014 be agreed.

Conclusion

13. The HRA forecast is an estimate of the income and expenditure over the next five years. The financial health of the HRA is still good, though due to a significant reduction in investment income it will be necessary to replace some RCCO funding with funding from the MRR in order to keep the balance on the HRA at or around £3 million. There is expected to be a significant balance on the MRR, which means that this switch in funding should cause few issues. However as always a further five year forecast will again be produced in March 2010.

Resource Implications:

The forecast represents an estimate of HRA income and expenditure over the next five years.

Legal and Governance Implications:

Financial forecasting is recognised as good practice and is a key element of the Council's Governance Framework.

Safer, Cleaner, Greener Implications:

The Council's budgets contain spending in relation to this initiative.

Consultations Undertaken:

Consultation has occurred with the Director of Housing services, the Corporate Executive Forum and the Housing Portfolio Holder.

Background Papers:

Various working papers held in Accountancy.

Impact Assessments:

The HRA five year forecast plays a key part in managing the financial risks faced by the Council in general and the HRA in particular.