***Report to the Cabinet***

***Report reference:*** ***C-093-2009/10***
***Date of meeting:*** ***8 March 2010***

Epping Forest District Council

| | |
|---|---|
| **Portfolio:** | **Housing** |
| **Subject:** | **Housing Revenue Account Five-Year Forecast** |

| | | |
|---|---|---|
| **Responsible Officer:** | **Brian Moldon** | **(01992 564455).** |
| **Democratic Services Officer:** | **Gary Woodhall** | **(01992 564470).** |

---

**Recommendations/Decisions Required:**

**(1) That the Housing Revenue Account (HRA) Five Year Forecast up to the year 2014/15 be noted;**

**(2) That HRA balance be adjusted to be between £3.7m and £3.8m, and maintained within the range of £3m to £4m; and**

**(3) That HRA balances recommended in 2 above be achieved by means of a £2,800,000 transfer of funding between Capital Expenditure Charged to Revenue and the Major Repairs Reserve (MRR) in 2011/12 to 2014/15 thereby reducing the balance on HRA and increasing the balance on the MRR and that these additional contributions be included in the next Capital Programme review.**

**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 2014/15 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 £3m 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 the 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 2010/11 was better than had been predicted this time last year. The forecast did not allow for a reduction in the guideline rent from 6.1% to 3.1% in 2009/10 and this then has a knock on effect in future years. There was also compensation through the Housing Subsidy system for the capping of rents under the 2009/10 settlement which was not estimated.

5. The Contribution to the Repairs Fund has seen a reduction of £400,000 from 2011/12 onwards compared to this time last year. The forecast presumed that repairs would continue around £5.6m each year, however, as work is now being more planned and the need for repairs are reducing, we are expecting an increase in capital expenditure to accommodate these future planned works.

6. In order to maintain balances within the agreed £3m to £4m range it will be necessary to increase Capital Expenditure Charged to revenue by £1.35m in 2011/12 and then £2.1m in the following three years by switching funding to the MRR. This would take the MRR from its current projection of £4.4m by the end of 2013/14 to £9.9m.

7. The forecast itself contains a number of assumptions. Supervision and Management General costs are mainly employee related, and are inflated by 1.5% in 2011/12, 2% in 2012/13 and then 2.5% thereafter. Supervision and Management Special costs are closely linked to inflation due to the nature of the costs. Inflation has remained below 0% for the majority of this year until the last quarter which saw the December 2009 figure increase to 2.4%. 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 4% from 2011/12, but the guideline rent has been assumed to increase by a similar factor.

8. The balance at the end of 2009/10 is expected to be a little under £6.1m, this is £300,000 higher than the original budget. If no action is taken the balance at the end of 2014/15 is expected to be a little under £3.8m. The previous forecast showed a balance at the end of the forecast (31 March 2014) of £3.1m.

9. The five year forecast is assuming that the Council will continue to pay the Government housing subsidy payment in line with the current housing finance system. However, as Members will be aware the Council is expecting a voluntary offer in February / March 2010 to replace the existing HRA subsidy system, with a proposed debt reallocation or settlement to take place from April 2011. When this offer is received and if the Council agrees to the offer and the Government allows for the Council to come out of the Subsidy system, then a revised five year HRA forecast will be undertaken.

10. The latest thirty year HRA forecast, due to be published in March 2010, suggests Decent Homes standard can be maintained to 2028/29 (year 20 of the business plan) and that the HRA would fall into deficit in 2036/37 (year 28) , seven 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.

11. It is recommended that the adopted agreed last year (that balance should be maintained within the range of £3m to £4m) be left between £3m and £4m and that the amount of Capital Expenditure Charged to Revenue be increased to bring the balance to around £3.8m by 31 March 2015 be agreed.

Conclusion

12. 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, and it is proposed to increase Capital Expenditure Charged to Revenue in order to keep the balance on the HRA at around £3.8m. 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 2011, or sooner if the Council comes out of the Housing Subsidy system.

**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 and Greener Implications:**

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

**Consultation 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:**

Risk Management
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.

Equality and Diversity:

| | |
|---|---|
| *Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?* | No |
| *Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?* | N/A |

*What equality implications were identified through the Equality Impact Assessment process?*

N/A.

*How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?*
N/A