Report to the Cabinet

Report reference: C/126/2006-7.
Date of meeting: 12 March 2007.

Epping Forest District Council

Portfolio: **Housing.**

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

Officer contact for further information: 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 2011/12 be noted;

(2) That HRA balances be maintained within the range of £3 to £4 Million, but generally around £3.5 million; and

(3) That, by the inclusion of £1 million additional Revenue Contributions to Capital Outlay (R.C.C.O.), HRA balances be brought down to around £4 Million by 31 March 2012, and this additional expenditure be included in the next Capital Programme review.

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 30 Year financial plan that gives 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 a long-term indication of the likely direction of HRA finances and therefore needs to be borne in mind when considering future expenditure.

3. It is therefore 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 2007/08 increased the subsidy payable by 7.7%, which was generally in line with the 2006/07 settlement. When setting the budget for 2006/07 the Department for Communities and Local Government (DCLG) had indicated that it did not want to see rent rises in excess of 5% and in order to achieve this a subsidy allowance would be included to compensate Authorities for lost rent income resulting from this limitation. An assumption was made on the basis of only receiving a proportion of the lost revenue however in the event the authority was compensated in full.

5. At the present moment there is no indication from the DCLG whether they will continue with this policy. As the scheme was initially for two years it has been assumed that the Rental Constraint Allowance will go and rents will be allowed to take their natural course as under the amended Rent Restructuring Regime.

6. The forecast itself contains a number of assumptions. Supervision and Management General costs are mainly employee related and 3% is assumed for the pay award. Supervision and Management Special has recently seen increases in excess of inflation mainly due to energy costs, however indications are that energy prices may now have peaked. Prior to that inflationary growth of around 3.5% had been experienced and given the current level of RPI (January 2007, 4.2%), 3.5% has again been used as the longer term inflationary forecast is for levels to reduce again. Rental Income is assumed to increase around 5.5% but the guideline rent has been assumed to increase similarly.

7. The balance at the end of this financial year is expected to be £0.25m higher than was predicted at this point in 2005/06 at about £5.1m and the balance at the end of the period, without any additional expenditure, is expected to be around the same level. The previous forecast showed balances at the end of the forecast (31 March 2011) of £4m after allowing for additional revenue contributions to capital expenditure (RCCO) of £1.2m during the forecast period.

8. The latest 30-Year forecast produced in 2006 suggested that the HRA would fall into deficit in 2026/27. An updated 30-year plan is currently being produced and initial indications are that a deficit will not now occur until sometime after this. There is however considerable uncertainty surrounding future Housing Subsidy settlements but this has always been the case. It is therefore suggested that the policy agreed last year, that balances should be maintained within the range of £3 to £4 million should be re-affirmed, and that the balance at the end of the forecast period (31 March 2012) should be reduced to around £4 million.

9. In order to achieve this it is suggested that a controlled use of balances occur to bring them down to that level by the end of the forecast period. The most prudent approach would be to introduce more Revenue Contributions to Capital (R.C.C.O.), that way if HRA finances took a turn for the worse any cuts in expenditure would be less painful. It is therefore proposed that £250,000 additional R.C.C.O. be introduced for each of the four years beginning in 2008/09 and ending in 2011/12. It is also proposed that the exact timing and the projects on which this additional £1million might be spent be included as part of the next Capital Programme review.

Statement in Support of Recommended Action:

10. It is forecast that if the HRA continues as currently, balances are likely to build up to around £5 m. It is therefore suggested that balances should be managed within the range of £3 to £4 million. In order to achieve this £1 million additional R.C.C.O. has been introduced into the forecast as presented, the detail of exactly when and on what schemes to be determined as part of the next Capital Programme review. Deficits in years 2009/10 and beyond whilst looking substantial are occurring entirely due to the inclusion of RCCO in the forecast. The affordability of this level of expenditure is based on a number of assumptions and will need to be reviewed next year in the light of conditions existing then.

Other Options Considered and Rejected:

11. Increasing contributions to the Repairs Fund would reduce the HRA balance. However the contribution as set at £5.7 million is sufficient for the next five years and there is no obvious need to increase expenditure.

12. Additional R.C.C.O. could be used to replace funding from the Major Repairs Reserve rather than increase total expenditure. This would in turn increase the balance on the Major Repairs Reserve, however the underlying issue of high balances would not be addressed.

13. Additional ongoing expenditure could be introduced. However as intimated earlier if the HRA financial position was to deteriorate this would be more difficult to reverse than R.C.C.O. or other one off expenditure.

Resource implications:

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

Community Plan/BVPP reference: N/A.
Relevant statutory powers: N/A.

Background papers: None.
Environmental / Human Rights Act / Crime and Disorder Act Implications: None.
Key Decision Reference (if required): N/A.