

Agenda Item 12.1

Committee	Date	Classification	Report No.	Agenda Item No.
Cabinet	13th January 2010	Unrestricted	CAB 104/090	
Report of Aman Dalvi – Corporate Director Development & Renewal		Title Housing Revenue Account 2009/10 – Forecast Financial Position Statement, as at 31 December 2009.		
Originating Officer Chris Holme Service Head (Resources) – Development and Renewal / Paul Leeson Finance Manager - Development & Renewal		Wards Affected All		

Special Circumstances and Reasons for Urgency

This report was unavailable for public inspection within the stated timescales set out in the Authority's constitution because it is an urgent report requested by Cabinet at its meeting on 2 December 2009. Cabinet requested the preparation of an urgent report to the meeting of 13 January 2010 in light of a significant projected deficit on the housing revenue account. The preparation of this report has required joint working with the Council's ALMO, Tower Hamlets Homes, using where possible information available as at the end of December 2009. The time necessary to prepare an accurate update with recent information prevented earlier publication.

1. Summary

- 1.1 At its meeting of 2nd December Cabinet considered the second quarter's budget monitoring for 2009/10. The report outlined that projections were indicating a potential £4million deficit on the Housing Revenue Account (HRA) as a consequence of falling income and budget overspends. Members requested that a further report be presented to the January Cabinet. Officers have been working with the Council's ALMO, Tower Hamlets Homes, who manage key housing activities on behalf of the Council, to provide the most up-to-date position on the finances of the HRA in the current financial year. This report updates Cabinet of the outcome of that work, and provides officers current forecast of the likely outturn position.
- 1.2. The report identifies that an over spend of £2.6m is now projected for 2009/10, although management action will continue for the rest of the financial year in an effort to mitigate this. Around £1.3m of this variance is due to changes in capital financing costs and HRA subsidy income which the Council cannot affect. The remainder is due to over spends in expenditure budgets, partly offset by additional income. Actions are set out in the report aimed at containing these costs.

2. Recommendation

Cabinet is recommended to: -

- 2.1 Note the projected outturn in respect of the 2009/10 Housing Revenue Account as detailed in Appendix A to this report, and its implications for 2010/11, as outlined in paragraph 4 of the report.

3. Background

- 3.1 Cabinet considered 'The 'Performance and Corporate Revenue Budget Monitoring report 2009-10 – Performance to 30th September 2009' report on 2 December 2009. It was requested that a further report be submitted to the January 2010 Cabinet outlining the position on the Housing Revenue Account and the pressures that are being faced. That report identified a significant potential deficit as a consequence of falling income and a number of projected budget overspends particularly with regard to Repairs and Maintenance expenditure. At that meeting it was reported to Members that the deficit for the year could be up to £4million.
- 3.2 This report updates Members of the financial position of the Housing Revenue Account (HRA) in 2009/10. It is based on the most up-to-date information available on income, expenditure and service activity to 31 December 2009. Key elements of the management and special services budget are procured through the management agreement with Tower Hamlets Homes, the Council's Arms Length Management Organisation.
- 3.3 The original budget used in this report was approved by Cabinet on 8th April 2009, following the Government's decision to lower the guideline rent increase from that previously announced in its HRA Determination of December 2008.
- 3.4 The HRA is a statutory ring-fenced account and relates to the activities of the Council as landlord of its dwelling stock. Income to the HRA is primarily derived from tenants' rents, service charges and government subsidy. Expenditure includes repairs and maintenance and the provision of services to manage the stock. Expenditure not met by Housing Revenue Account subsidy must mainly be met from Council tenants and leaseholders.
- 3.5 A number of substantial elements of the HRA such as subsidy and capital charges are either totally, or largely, out of the control of the Council. The major areas within the control of the Council are management, special services and maintenance. The majority of these services are managed by Tower Hamlets Homes on behalf of the Council.
- 3.6 Officers have been, in conjunction with Tower Hamlets Homes, conducting a detailed review of income and expenditure actuals and assumptions.

4 Current Position

- 4.1 Set out in Appendix 1 is the original 2009/10 HRA budget in its statutory format, together with the latest budget, and explanations for major variances are set out below.

4.2 The Housing Revenue Account is under the most severe financial pressure, and this is unlikely to change in the medium term. Overall, officers' current assessment is that the deficit for 2009/10 will be some £2.6million, and this will have significant implications for a number of years to come. The deficit must be financed by the utilisation of HRA reserves, and ring-fencing regulations preclude any subsidy from the Council's General Fund. To ensure long-term sustainability of the HRA those reserves must be replenished.

4.3 The resources available to fund the HRA have reduced significantly as a consequence of the current economic climate, and this will have an ongoing impact into 2010/11, as interest rates continue to remain at historic lows. The loss of income must be offset by making additional savings and/ or generating additional income from other sources within the HRA.

4.4 **HRA Subsidy / Capital Charges**

The on-going economic situation and particularly the large reductions in interest rates have had a major impact on the HRA. The 2009/10 budget was prepared using the latest interest rate projections available at that time, but these rates have had to be updated to reflect the on-going economic position.

For subsidy purpose the Government assumes a notional debt level for the Authority which is significantly in excess of the Council's actual level of debt and this is common amongst London local authorities. This means that although capital charges are reduced as a consequence of lower interest rates, housing subsidy reduces at a much faster rate. Officers' assessment is that there will be a loss of over £4million of housing subsidy in this year as a consequence of this whereas capital charges will only reduce by £3.1million.

In addition the interest that the Authority expects to generate on the HRA balances held will also significantly reduce, due both to the significant use of balances and on-going low interest rates. Current estimates are that the interest received will be less than £200,000 compared to the budget of £600,000.

4.5 **Repairs and Maintenance**

Repairs are managed on behalf of the Council by Tower Hamlets Homes, and they forecast that despite a number of measures to mitigate, significant overspend is anticipated on this budget. The main reasons for this are as follows;-

- increasing age and frailty of the stock are having additional demand pressures;
- there has been a greater focus to meet tenants' needs by undertaking more work, and consequential raising of expectations
- a greater emphasis on clearing communal backlog repairs through estate inspections and repair days.

Tower Hamlets Homes have been reviewing the spend position and have introduced a number of measures to alleviate the overspend position. These include;

- All orders are now assessed on a daily basis and prioritised accordingly
- Greater focus on work with the contractors to identify alternative more economic solutions to repairs eg bulking communal work orders on repair days.

- Void costs have been looked at in detail and a number of potential savings have been identified. However, based on the number of voids in the first part of the year we are projecting a greater number of voids this year over last year so no overall reduction in spend is expected even though average cost will decrease.
- Ongoing VFM work with contractors should deliver more effective ways of obtaining greater value from these contracts.

Council officers have been working with Tower Hamlets Homes staff to investigate, and have identified areas where there is scope to finance certain items of repairs expenditure from other funding sources, in particular the capital programme. However Members should note that current adverse weather conditions are likely to further impact upon demand for responsive maintenance.

4.6 Management – General and Special Services

As outlined in the first quarter's 'Performance and Corporate Revenue Budget Monitoring report 2009-10' that was considered by Cabinet on 2 September, net expenditure on Supervision and Management is currently forecast to be over 2% in excess of budget. The projections include some extra-ordinary one-off restructuring and legacy costs which have been provided for within reserves. In addition to this there have been additional costs associated with squatting and its prevention on regeneration estates. Other potential overspends are anticipated across various other budgets, including those provided through the Council. On-going efforts are being made in conjunction with Tower Hamlets Homes to reduce expenditure in this area.

4.7 Dwelling and Non-Dwelling Rental Income

The first quarter's monitoring feedback reported that Rental Income would be lower than originally estimated due to various factors. The transfer of approximately 90 tenanted properties on the Coventry Cross estate to Polar HARCA in July 2009 has reduced the number of rent generating properties within the Council's ownership. In addition the greater number of voids in the current year, mainly due to the Authority's on-going regeneration schemes including the Ocean Estate and Blackwall Reach, means that a projected shortfall of approximately 1% is anticipated on the £55 million dwellings rent budget. This is partially offset by increased income from shop rents following the on-going re-negotiation of leases.

4.8 Service Charge Income

When the April to June monitoring report was considered in September it was reported that the income anticipated from the service charges for 2009/10 would be higher than originally estimated. At that stage the actualisation of service charges for 2008/09 was still to be completed, and following the finalisation of this process in September the projected service charge income for 2009-10 has increased further, with current estimates being that income will be £1.5 million in excess of budget.

5. Comments of the Chief Financial Officer

- 5.1 This report was requested by Members to provide an update on the current projected outturn position on the Housing Revenue Account during 2009-10. This followed the second quarter's budget monitoring report to Cabinet that highlighted a significant overspend and shortfall in income within the HRA.
- 5.2 The report suggests that the net level of overspend / reduced income could exceed £2.6 million. Specific explanations relating to variances on expenditure and income, together with associated risks, are reflected in the body of the report.
- 5.3 This is a very significant budget overspend and although it can be contained within the current level of balances held, it is essential that on-going actions are undertaken and initiatives developed to reduce expenditure, and where possible generate additional income. The report sets out the actions that will be taken and the Cabinet needs to assure itself that these actions will mitigate the situation for 2009/10.. .
- 5.4 Whilst an overspend of this magnitude can be contained within existing reserves, if it transpires that the HRA does overspend by this amount, after taking account of approved commitments, this will take the HRA below the minimum recommended level of reserves (£9m). This risk will need to be taken into account in setting the budget for 2010/11 and provision made for replenishing reserves if necessary.
- 5.5 As Members are aware, severe budgetary pressures are impacting on the authority's finances. These pressures are particularly acute for the HRA because of the way the Housing Subsidy system operates (as explained in the report) and because of the strict ring-fencing that applies to the HRA. The HRA has also not benefited from the three year settlement which applied to the General Fund. The current budget process for 2010-11 has highlighted the need for savings within the authority's budgets, and the proposed HRA savings will be reported to Cabinet in February. It is important that the finances of the HRA are kept under review and projected going forward so that these pressures can be strategically managed.
- 5.6 The Council's Rent proposals for 2010-11 are being considered in a report elsewhere on this agenda.

6. Concurrent Report of the Assistant Chief Executive (Legal)

- 6.1 The Council is required to keep an account, called the housing revenue account, of sums credited or debited in respect of houses provided by the Council under the Housing Act 1985, land acquired or appropriated for that purpose and other prescribed matters: Local Government and Housing Act 1989, s.74 ("the 1989 Act"). There is a further obligation on the Council to develop proposals for each financial year, the implementation of which is designed to secure that the account does not show a debit balance: the 1989 Act, s.76. The Council is required to review its proposals from time to time and make any necessary adjustments. It is consistent with these duties and with good financial administration for Cabinet to receive information concerning the expected out-turn of the housing revenue account and any action to be taken in relation to it.

7. One Tower Hamlets Considerations

7.1 There are no specific equalities, community cohesion or community leadership issues arising from this report.

8. Sustainable Action for a Greener Environment

8.1 There are no specific implications arising from this report.

9. Risk Management Implications

9.1 There are on-going pressures on the Repairs and Maintenance budget as outlined in paragraph 4.5. Efforts are being taken in conjunction with Tower Hamlets Homes to closely control and reduce expenditure in this area, but ultimately the Authority has legal responsibilities in respect of maintenance obligations for the tenanted stock. A particular risk is the significant added pressures that will be placed on the responsive repairs budget by an on-going period of severe winter weather.

9.2 In addition to the budget pressures outlined in the report, Members should be aware that there are on-going legacy issues arising from the Housing Choice process. These include employee challenges which are currently the subject of legal proceedings.

9.3 The ongoing low levels of interest rates have had a major impact on both the Housing Revenue Account and the General Fund, as will any future rate changes. This report incorporates a likely assessment of the effect of the base rate changes, but the position will be closely monitored and Members will be updated of the position within this and future years' quarterly budget monitoring reports to Cabinet.

10. Efficiency Statement

10.1 We are required to ensure that, over the medium term, HRA expenditure is contained within income from tenants, leaseholders and the housing subsidy system. This report highlights the significant impact that current interest rates have on income to the HRA through the subsidy system. This means that Value for Money, in delivery of services is paramount, and this is reflected in our HRA financial strategy.

11. List of Appendices

Appendix 1:

Housing Revenue Account: Forecast Outturn 2009/10 (as at 31 December 2009)

Local Government Act 1972 (as amended) Section 100D
List of "Background Papers" used in the Preparation of this report

Brief description of "background paper"

Name and telephone number of holder
And address where open to inspection

There are no background papers applicable to this report

BUDGET MONITORING REPORT 2009/10

2009/10 Original Budget £'000	HEADING	2009/10 Latest Budget £'000	2009/10 Forecast Outturn £'000	Forecast Variance £'000
Income				
(55,219)	Dwelling rents	(55,219)	(54,626)	594
(2,815)	Non-dwelling rents	(2,815)	(3,072)	(257)
(6,718)	Heating and other tenant charges	(6,718)	(6,418)	300
(9,613)	Leaseholder charges for services and facilities	(9,613)	(11,203)	(1,590)
	HRA Subsidy Receivable (including MRA)			
(6,788)	General	(6,788)	(2,737)	4,051
(12,556)	MRA	(12,556)	(12,556)	(0)
(115)	Contributions towards expenditure	(115)	(115)	-
(93,824)	Total Income	(93,824)	(90,727)	3,097
Expenditure				
22,901	Repairs & Maintenance	22,901	24,438	1,537
39,023	General and Special Services	39,023	40,013	990
2,947	Rents, rates, taxes and other charges	2,947	2,713	(234)
	Rent rebate subsidy limitation deduction transfer to			
	- General Fund	-	-	-
900	Increased/(Decrease) provision for bad debts	900	900	-
	Capital Financing Charges			
17,630	Interest (Item 8)	17,630	14,457	(3,173)
12,556	Depreciation - HRA dwellings	12,556	12,556	0
789	Depreciation - Non Dwellings	789	789	-
213	Debt Management Costs	213	213	-
96,959	Total Expenditure	96,959	96,079	(880)
3,135	Net costs of services	3,135	5,352	2,217
				-
(538)	Supporting People Grant	(538)	(538)	-
585	Amortised Premiums and Discounts	585	585	-
(612)	HRA investment income	(612)	(178)	434
2,570	Net operating expenditure	2,570	5,221	2,651
Appropriations				
3,700	Revenue Contributions to Capital Expenditure	6,700	6,700	-
	Transfer from Major Repairs Reserve	(789)	(789)	-
(1,181)	Transfer from Housing Choice Reserve	(4,181)	(4,181)	-
5,089	Deficit / (Surplus) for year	4,300	6,951	2,651
Balances - General				
(12,120)	Balances at beginning of year	(12,120)	(12,120)	-
(7,031)	Balances at end of year	(7,820)	(5,169)	2,651
Housing Choice Reserve				
(11,181)	Balances at beginning of year	(11,181)	(11,181)	-
(10,000)	Balances at end of year	(7,000)	(7,000)	-

This page is intentionally left blank