

BUSINESS SUPPORT OVERVIEW & SCRUTINY COMMITTEE

3 FEBRUARY 2009

HOUSING REVENUE ACCOUNT CAPITAL AND REVENUE BUDGETS 2009/2010

Portfolio Holder:	Howard Doe, Portfolio Holder for Community Services
Overview and Scrutiny Committee:	Business Support Overview and Scrutiny Committee
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Summary

This report details how the Housing Revenue Account revenue and capital budgets have been drafted and explains the business objectives for the Housing Revenue Account in 2009/2010.

It seeks to give details of the Revenue and Capital Budgets for 2009/2010 and seeks approval for new rent levels commencing April 2009.

1. Budget and Policy Framework

- 1.1 In accordance with the constitution, Full Council is required to carry out an annual review of rents and notify tenants not less than 28 days prior to the proposed date of change, develop initial budget proposals approximately three months before finalising the budget and setting council tax levels in March 2009.

2. Background

- 2.1 The comments and recommendations of this Committee will be collated for onward despatch to the Cabinet on 17 February 2009.
- 2.2 Cabinet, on 25 November 2008, considered the draft Revenue budget for 2009/2010.
- 2.3 Cabinet made the following decision at it's meeting:

234/2008 The Cabinet agreed to forward the provisional draft budget to the Overview and Scrutiny Committees as work in progress inviting them to offer comments on the proposals outlined.

2.4 The timetable for consideration by overview and scrutiny is as follows:

Regeneration, Community and Culture	13 January 2009
Children and Adult's	10 January 2009
Health and Adult Social Care	14 January 2009
Business Support	3 February 2009
Cabinet	17 February 2009
Council	26 February 2009

2.5 Key Considerations

2.5.1 The Council is required under the Local Government and Housing Act 1989 to ensure that the Housing Revenue Account does not fall into a deficit position.

2.5.2 The preparation of the 2009/2010 Housing Revenue Account budget has been driven by a number of specific issues that impact upon the service. These drivers are listed below and explained in more detail in the following paragraphs;

- Rent Restructuring,
- Decent Homes Standard,
- Performance Management,
- Business Planning,

2.6 Rent Restructuring

2.6.1 Members will be aware from previous reports, of the Governments' initiative to converge social housing rents between local authorities and registered social landlords by March 2012. A summary of the Government guidance on rent re-structuring is available as a background document.

2.6.2 Rents under this arrangement are exclusive of service charges. The rent restructuring initiative requires service charges to be disaggregated from the rent calculation, charged separately and to be based on actual expenditure with annual adjustments based on activity (see section 2.10.3).

2.6.3 The 2009-2010 subsidy determination detailed a two-year plan to give stability to Local Authorities whilst the government's review of Local Authority Housing Finance is completed. As part of this settlement, the guideline rent, upon which the actual rents are calculated, was increased by just over 6% for Medway (6.2% average nationally). Actual rent increases for 2009/2010 include an element for inflation,

which is based upon the retail price index for September 2008 (5%). Whilst this increase is large, given the current financial climate, the Government realised that the increase in the guideline rent in excess of 6% could firstly result in large actual rent increase, especially as Local Authorities have been under pressure to increase rents in order to converge actual rents with guideline rents. Therefore in order to combat both these issues, they have stated that rent increases must not exceed 7% on average and have extended the date for rent convergence for guideline rent calculation purposes to 2023/2024. This convergence date will change dependant upon inflation levels when rents are set in future years.

- 2.6.4 The calculations used in rent setting for 2009/2010 are on the same basis as those used for 2008/2009. This results in an average rent increase from April 2009 (based upon a 50 week collection period) of £3.81 per week or 5.63% before service charge increases are taken into account. Whilst this increase is larger on average than those between 2007/2008 and the current financial year, the rate of inflation has increased with a resultant increase in the calculated target rents and the consequent actual rent levels. It is expected that rent levels increase in line with nationally agreed calculations in order that rent convergence for social housing occurs.
- 2.6.5 Under the rent-restructuring scheme there is a maximum annual increase that can be levied. This is calculated using the formula Retail Price Index (RPI) (as at September of the preceding year) + half a percent plus £2.00 per week. For 2009/2010 this equates to £5.72 per week when averaged across the whole stock. This figure incorporates any increase that is applied for rent and those service charges that are eligible for housing benefit. The range of projected increases, based upon assumed levels of inflation for each year from 2009/2010 to 2012/2013 for each property type is shown in Appendix B. The average housing benefit eligible service charge levy for 2008/2009 is £3.22 per week. This will increase by £0.18 per week or 5.24% for 2009/2010 to £3.40 per week.

2.7 Decent Homes Standard (DHS)

- 2.7.1 In 2000 the Government made a commitment to bring all public sector homes up to a Decent Standard. Forward targets were set in this respect, establishing a short-term target to reduce the number of non-decent homes existing in 2000 by one third by 2004 and with full compliance by 2010.
- 2.7.2 This placed a responsibility on councils to –
- Establish how each property within their stock compared to the DHS,
 - Assess the level and type of disrepair required for the whole stock to meet the DHS,
 - Evaluate how much it will cost to bring all homes up to the DHS by 2010,

- Set a timetable for eliminating backlog repairs in their stock while carrying out ongoing maintenance, and taking action to ensure these targets are met.

2.7.3 Following the outcome of the stock options appraisal of 2004 and the decision to retain ownership of the stock it was necessary to establish compliance with the Decent Homes Standard both up to and beyond 2010. However retention could only be based on an investment strategy that allowed for the minimum standard of decency i.e. not renewing kitchens or bathrooms unless failure to replace them would mean failing the decent homes standard.

2.7.4 A key business objective in 2009/2010 is to ensure that our capital programme addresses the needs identified from the options appraisal and associated 30-year business plan to both deliver decent homes by the end of 2010/2011 and maintain them at that standard thereafter. The capital programme addresses the investment needs in 2009/2010 in this respect (see section 2.11).

2.8 Performance Management

2.8.1 Performance Information

2.8.1.1 The financial management of the Housing Revenue Account is directly linked to key performance in a number of operational areas (average management and maintenance costs, void management, rent collection and arrears recovery).

2.8.2 Management and Maintenance Costs

2.8.2.1 Previously the Council had to report the average weekly cost of both management and maintenance per unit of stock as Best Value Performance Indicators but this requirement ceased in 2003/04. These costs still remain a key element in the financial management of the Housing Revenue Account and are detailed in Table 1 below.

	2005/ 2006 Actual	2006/ 2007 Actual	2007/ 2008 Actual	2008/ 2009 Estimated Costs	2009/ 2010 Projected Costs
Management	£14.62	£15.06	£16.74	£16.12	£16.92
Maintenance	£11.20	£12.78	£11.87	£13.79	£14.46

2.8.2.2 Based on the 2009/2010 budget proposals, the management and maintenance cost per property per week will be £16.92 and £14.46 respectively. This equates to an increase of 5.02% for management and 4.86% for maintenance over the estimated costs for 2008/2009.

2.8.2.3 The large increase in management costs can be mainly attributed to higher projected energy costs for 2009-2010. Whilst the income relating to these services are netted from the costs when calculating the management costs, the increase in the charges is limited to inflation plus 0.5% (see Section 2.10.3 for further information).

2.8.3 Voids

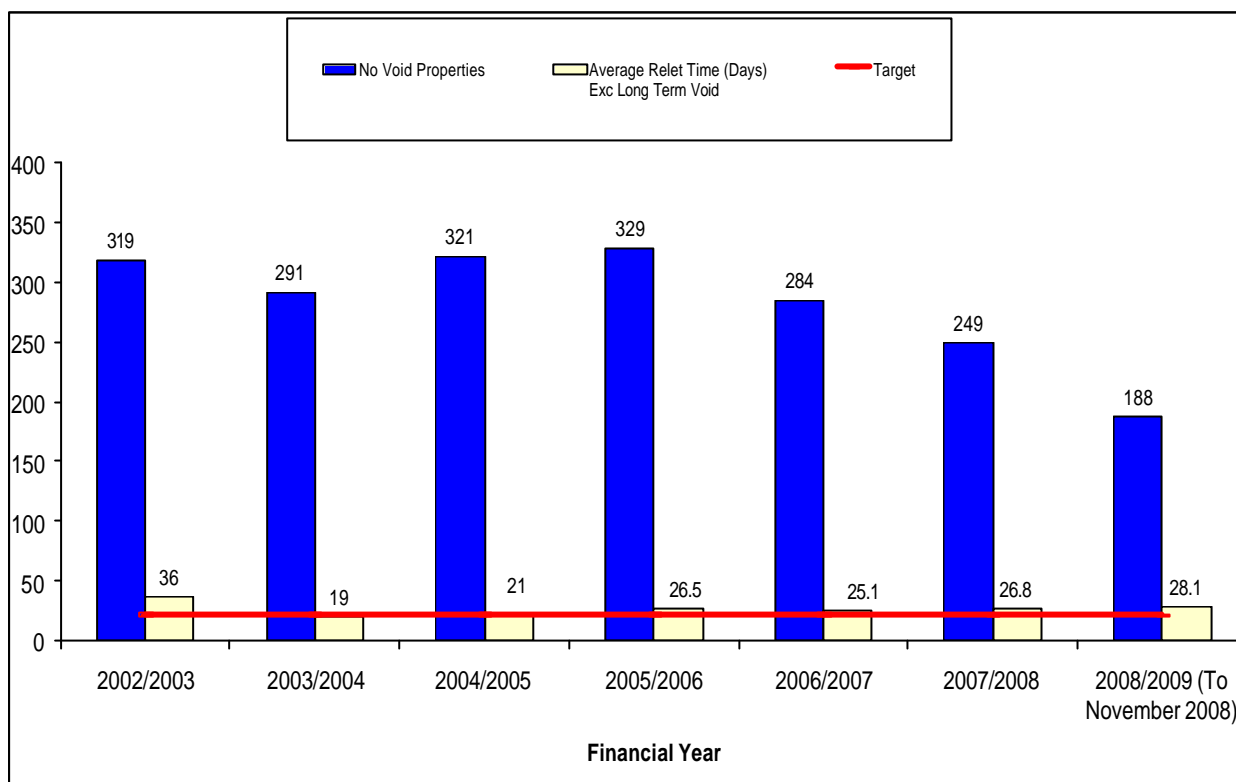
2.8.3.1 There is a direct correlation between the time a property remains void and the rent foregone.

2.8.3.2 For 2008/2009 a target for void property rent and service charge loss was set at 0.9% of the rent debit, equating to £101,362. Year to date actual performance is currently at 1.37%, a financial rent loss of £154,036 if performance remains at current levels. Our void turnaround performance target for 2009/2010 will be set at 21 days to be at regional top quartile level.

2.8.3.3 For 2009/2010 the provision for void rent and service charge loss has been set at 0.9%, or in financial terms £122,515.

2.8.3.4 The average number of days a property remains empty has been a Best Value Performance Indicator (BVPI) since 2005/2006. A challenging target of 21 days was set for the current year and performance up to the end of November 2008 is at 28.1 days. The target set was intentionally challenging to motivate staff and may not be attained by the end of the year. Comparing performance at national level will not be possible until publication of the 2007/2008 BVPI full year figures, which have yet to be received. However, benchmarking against those authorities that are members of the Housemark south east region benchmark club for the final quarter for 2007/2008 and the first quarter of the current financial year indicates that this level of performance is below upper quartile performance, which is at 24.87 days for the region. Graph 1 below details historic performance data and shows the current years performance as at end November 2008.

Graph 1 – Vacant Property Data 2002/03 to 2008/09



2.8.3.5 Our void turnaround performance target for 2009/2010 will be set at 21 days to be at regional top quartile level.

2.8.4 Rent Collection/Bad Debt Provision

2.8.4.1 The collection rate for rent and service charges and the performance in managing rent debt is critical to the financial position of the Housing Revenue Account and has a direct impact on the amount of bad debt provision that has to be set aside.

2.8.4.2 The collection level of rent for 2008/2009 is currently 98.95% against a target of 100.13% (this is over 100% due to the intention to collect and reduce the level of rent arrears), which if sustained to 31 March 2008 will result in an increase of current tenant rent arrears from £305,969 at 1 April 2008, to around £340,000 and will therefore not achieve the 2008/2009 target figure of £290,000.

2.8.4.3 In order to meet top quartile performance, the level of current rent arrears should be at around 2.6% of the rent debit, which is calculated as around £305,000 as at 31 March 2010. After careful consideration, it has been decided that the target for current rent arrears as at 31 March 2010 will be £299,000, which equates to 2.55% of the 2009/2010 rent debit. In order to reach the target for current tenancies, assuming the transfer of current debt to former debt, through terminated tenancies with arrears balances, the required collection rate has been calculated at 99.67%.

2.8.4.4 If there is to be no transfer of current arrears to former arrears, and the actual performance in the collection rate of rent were to fall below 100% it would follow that the level of rent arrears would increase. In turn internal provision for bad debt would need to be made.

2.8.4.5 In line with other parts of the authority, calculation for the provision against debt that may not be recovered is based upon the age of the debt and the relevant proportion is applied to the amount outstanding, and is adjusted to show whether the debt is a high or low risk e.g. is the outstanding debt falling over time or not. Details as to how the provision is made is shown in Table 2 below:

Table 2 – Basis for calculation of Bad Debt Provision			
Description of Debt (Includes Rent, Housing Benefit Overpayments prior to April 2004, Court Costs, Rechargeable Repairs and Supporting People Overpayments)	Age of Debt	Provision Calculation Factor (Low Risk)	Provision Calculation Factor (High Risk)
Current Tenant Debt	0 to 4 Weeks	0%	0%
	5 to 13 Weeks	5%	10%
	14 to 26 Weeks	15%	25%
	27 to 39 Weeks	30%	50%
	40 to 52 Weeks	45%	75%
	Above 52 Weeks	60%	95%
Former Tenant Debt	All Amounts	60%	95%

2.8.4.6 As at 31 March 2009 the projected requirement for bad debt provision will be £575,465, and requires a contribution from revenue of £85,316. This assumes current tenant rent arrears at £340,000; other current tenancy related debt (housing benefit overpayment debt, court costs, rechargeable repairs and supporting people overpayments) at £114,560; and former tenant debt at £299,075.

2.8.4.7 The 2009/2010 budgets include a sum of £54,348 to supplement bad debt provision. This sum has been calculated on a number of assumptions as detailed in Table 3 below:

Table 3 – Bad Debt Provision as at 31 March 2010		
Description of Debt (Including rents, Housing Benefits Overpayments (prior to April 2004), Court Costs, Rechargeable Repairs and Supporting People Overpayments)	Amount of Debt	Bad Debt Provision
Current Tenant Debt Assumptions: <ul style="list-style-type: none"> • £80,000 of current tenant debt will become former tenant debt • Current tenant rent debt will reduce by a net £41,000 to £299,000 by 31 March 2010 	£418,135	£275,303
Former Tenant Debt Assumptions: <ul style="list-style-type: none"> • £80,000 of current tenant rent debt will become former tenant debt • £90,000 of former tenant debt will be written off in 2009/2010 	£289,075	£264,510
Total	£707,210	£539,813

2.8.4.8 The write off of debts, once it is considered that they are irrecoverable, has the effect of reducing the overall debt level but also reduces the amount of provision that needs to be set aside.

2.8.4.9 Bad debts written off totalled £134,832 in 2005/2006, £83,363 in 2006/2007, £130,310 in 2007/2008 and £90,000 has been projected in the current year (£83,622 has already been written off as at 14 January 2009).

2.8.5 Business Planning

2.8.5.1 From 2001/2002, as part of the New Financial Framework for the Housing Revenue Account the Council is required to produce a business plan covering a period of thirty years. This plan is compiled based on projections of income and expenditure, performance and assumptions such as the loss of stock from right to buy. It incorporates a financial projection for the Housing Revenue Account over the thirty-year period and provides the framework for strategic decision making for the management of the Housing Revenue Account.

2.8.5.2 The business plan incorporates the service and investment issues that resulted from the stock options appraisal and provides the framework for delivering the service in the short to long term.

2.8.5.3 The 30 year financial projection within the business plan is due to be remodelled in early 2009/2010, to take account of any adjustments to the projected requirements for capital expenditure to reach the Decent Home Standard following the review of the data collected for the next 25% phase of the ongoing stock condition survey which is taking place in the very near future.

2.8.5.4 It is proposed that when the financial projection is remodelled, a briefing note will be presented to Members, which will give details of the current and future projected position of the Housing Revenue Account.

2.9 Housing Revenue Account Budget 2009/2010

2.9.1 General

2.9.1.1 The Housing Revenue Account is used only for expenditure and income associated with the management and maintenance of the Council's social housing stock and is a ring-fenced account.

2.9.1.2 Income is received mainly through rents, service charges and interest earned on balances.

2.9.1.3 Expenditure is incurred through management (staff, services etc.), housing maintenance (repairs), housing subsidy (payment to the Department for Communities and Local Government) and capital charges.

2.9.1.4 A main summary of the Housing Revenue Account revenue budget is given at Appendix A. A detailed breakdown of each cost centre together with working papers is held by the housing accountant and available to any Member upon request.

2.10 Housing Revenue Account Income

2.10.1 Housing Rental Income

2.10.1.1 The Council has been required to calculate rents over a fifteen-year period using the rent restructuring formula as detailed in section 2.6. This calculation is exclusive of service charges. The purpose of rent restructuring is to facilitate the convergence of rents between Local Authority landlords and Registered Social Landlords (RSL's).

2.10.1.2 Using this method, it has been calculated that on average, the rents will increase by £3.66 per week from April 2009, however, as rent is consequently charged over 50 weeks, the average increase over the charging period will be £3.81. It is necessary to increase the rents by this amount in order to reach the "target rent" for each property by March 2024.

2.10.2 Garage Rental Income

2.10.2.1 The Council's stock of garages number 1,101 units of which 415 are currently empty. Members will be aware that a strategy was agreed by Cabinet in November 2006 to dispose of a number of garage sites with high levels of vacancies and/or are in poor condition and to reinvest proceeds up to £300,000 in the retained garage stock.

2.10.2.2 The 2008/2009 rent charge for garages is £5.41 per week for Council tenants and £7.21 per week plus VAT (£8.29) for other residents.

2.10.2.3 It is proposed to increase rent levels in line with RPI (as at September 2008) i.e. 5% from April 2009 and is detailed in Table 4 below:

Table 4 – Details of Garage Rent Increases

	Net	VAT	Total
Council Tenants			
- 2008/2009	£5.41	-	£5.41
- 2009/2010	£5.69	-	£5.69
Other Residents			
- 2008/2009	£7.21	£1.08	£8.29
- 2009/2010	£7.57	£1.14	£8.71

2.10.3 Service Charges

2.10.3.1 As part of rent restructuring, all local authorities are required to disaggregate service charges from tenants base rent. This process is known as 'depooling'. Indeed, the production of service charges has been required for leaseholders that have bought flats through the right to buy scheme since it's inception.

2.10.3.2 The range of services that attract a service charge are caretaking, communal cleaning, communal electricity, cookers, fridges, grounds maintenance, digital television, helpline charges, communal window cleaning, and relating just to sheltered schemes, water rates, communal central heating, council tax and sheltered scheme manager charges.

2.10.3.3 Each year, the authority should look at the actual costs incurred in the previous year, and make the necessary adjustments to future years based upon these findings.

2.10.3.4 The Government expects all local authorities to act responsibly where service charges are concerned and they should make a reasonable charge to cover the costs of providing that service. However, with regards to charges that are eligible for Housing Benefit, there is a cap to the annual increase that can be levied. For 2009/2010, no charge eligible for housing benefit should be increased more than the Retail Price Index as at September 2008 (5%) plus 0.5% i.e. 5.5% over that charged in 2008/2009.

2.10.3.5 The service charges and their eligibility for various benefit streams are listed in table 5 below:

Table 5 – Service Charges and Benefit Eligibility

Service Charge	Benefit Eligibility
Caretaking	Housing Benefit
Communal Electricity	Housing Benefit
Grounds Maintenance	Housing Benefit
Linked Garage	Housing Benefit
TV Aerial	Housing Benefit
Warden	Housing Benefit
Window Cleaning	Housing Benefit
Adult Services Facilities Charge	Housing Benefit
Sheltered Helpline	Housing Benefit
Cooker	None
Council Tax	None
Fridge	None
Communal Heating	None
Water	None
Community Alarm	Supporting People
Sheltered Support	Supporting People
Supported Helpline	Supporting People

2.10.3.6 In order to ensure that overall levels of service charges are fair, an exercise has been undertaken to look at the levels of income achieved through service charges compared with the associated expenditure incurred by the Housing Revenue Account, and whilst the cost of providing services such as the caretaking service, grounds maintenance, communal electricity, sheltered heating, communal water charges and window cleaning cost just under £952,000 in 2007-2008, service charges only produced an income of just under £735,000 for the same period. Therefore, it can be seen that whilst charges to individual tenants are not insignificant, they are not at a level where all costs are recovered, and this will continue to be the case whilst there are caps upon the level of annual increases to individual charges.

2.10.3.7 Table 6 below details the position with regards to services where costs can be specifically identified:

Table 6 – Comparison of Net Cost for Services 2007/2008

	Cost £	Income £	Net Cost/ (Income) £
Caretaking	377,849	220,919	156,931
Communal Electricity	82,977	60,785	22,192
Community Alarm	59,220	59,715	(495)
Council Tax	11,963	12,016	(53)
Grounds Maintenance	65,242	26,263	38,979
Heating Charge	101,583	107,638	(6,055)
Helpline	26,105	22,137	3,968
SP Help	17,381	18,151	(770)
Warden Charge	163,471	160,123	3,347
Water Rates	36,850	35,885	965
Window Cleaning	9,113	10,926	(1,813)
Total	951,756	734,558	217,197

- 2.10.3.8 There are three main areas where costs recovered are substantially below the charges incurred, those being caretaking, communal electricity and grounds maintenance. All three charges are eligible for housing benefit and therefore increases are 'capped' at inflation plus 0.5% over that levied in the previous financial year.
- 2.10.3.9 With regards to the Caretaking service, it is estimated that the charge would have to be increased by just over 45% in order to recover the projected costs for 2009/2010, which is not possible. However, this team forms part of the Housing Revenue Accounts direct management service and it is felt therefore that a review of the caretaking service should take place in order to ensure that value for money is obtained for tenants. Part of this review will involve benchmarking the service against other providers and consultation with stakeholders. It is anticipated that the review will take place within the next financial year with any changes to the service being as soon as possible.
- 2.10.3.10 The variation with regards to communal electricity will be difficult to bridge as charges can only increase by inflation plus 0.5% regardless of the actual increase in the price of purchasing the electricity. It is suggested that the policy should be to increase charges by the maximum allowed until such time as parity is achieved.
- 2.10.3.11 The last major variance relates to grounds maintenance where the reason that the costs are greater than the income charged relate to areas of open housing land where the council is unable to charge individual tenants. This will be an ongoing problem, but as with communal electricity, it is felt that charges should increase by the maximum allowed to assist with the recoupment of these costs.
- 2.10.3.12 For 2009/2010 officers have forecasted the likely cost of these services and the changes in charges between financial years

reflect either the ability to collect, in total, amounts equivalent to the likely cost, or where costs are unlikely to be recovered, an increase to the maximum of what is allowed.

2.10.3.13 The proposed increases for each service are given in Table 7 below:

Table 7 – Proposed Percentage Increases in Service Charges 2009/2010

Service	Proposed Percentage Increase for 2009/2010
Caretaking	5.50%
Communal Electricity	5.50%
Grounds Maintenance	5.50%
Linked Garage	5.50%
TV Aerial	5.50%
Sheltered Warden	4.74%
Window Cleaning	5.50%
Adult Services Facilities	2.50%
Sheltered Helpline	5.50%
Cooker	0.00%
Council Tax	5.50%
Fridge	0.00%
Communal Heating	5.50%
Water Rates	0.50%
Community Alarm	0.60%
Sheltered Support	0.00%
SP Helpline	(2.79%)

2.10.3.14 In conclusion, the Housing Revenue Account revenue estimates incorporate an overall increase in service charges of 4.48% for 2009/2010.

2.11 Housing Revenue Account Expenditure

2.11.1 Housing Benefits

2.11.1.1 The cost of housing benefit for council tenants was transferred to the General Fund with effect from April 2004.

2.11.1.2 Prior to April 2004, Housing Benefits were funded from the Housing Revenue Account in the first instance, but in the main, the cost was recovered through Housing Subsidy. Rent Rebate Limitation, meant that any benefit paid for a rent that was above the Governments calculated 'limit rent' was not recoverable. From April 2004, the cost of benefits that fall under rent rebate limitation will still remain the financial responsibility of the Housing Revenue Account. For 2009/2010, it is projected that the cost of this will be

approximately £133,000. For future years it is anticipated that this figure will reduce due to the convergence of actual rents with limit rents. However, Members should note that this payment is only to fund the cost of rent rebates that are not funded through benefit subsidy, and therefore although the limitation figure is reducing, there will still be no additional cost to the General Fund.

2.11.2 Capital Financing Costs

- 2.11.2.1 These are charges relating to the debt incurred by the Housing Revenue Account for capital schemes.
- 2.11.2.2 Capital charges to the Housing Revenue Account are increased by the issuing of Supported Capital Expenditure (Revenue) (SCE (R)) Allocations for capital schemes such as window and central heating replacement. The increase used to be offset by making provision for the annual repayment of principal (MRP – Minimum Revenue Provision). However, the obligation to set aside 2% of the opening Housing Revenue Account credit ceiling (Housing Revenue Account set-aside), as the Housing Revenue Account's contribution to the authority's Minimum Revenue Provision, was abolished by the Local Government Act 2003. At the same time, the corresponding subsidy element, Admissible Set Aside (ASA), which was calculated with reference to the Mid Year Subsidy Credit Ceiling (MYSCC), has been removed. This in effect means that the notional debt relating to the Housing Revenue Account is increasing.
- 2.11.2.3 Income from capital receipts generated through sales of Council housing via the scheme are pooled nationally at a rate of 75% of the capital receipts (less administration expenses) by way of a quarterly payment to the Government. The Government has stated “this ensures that the principle of redistribution of the spending power generated by such receipts, as delivered previously by set-aside, will continue and be strengthened by the inclusion of debt-free authorities. This money is used to support housing capital expenditure in line with the policies outlined in the Sustainable Communities Plan.”
- 2.11.2.4 Income from all other sales is pooled at a rate of 75% for dwellings and 50% for non-dwellings, but using the capital allowance to offset the payments due can reduce this. The capital allowance is a notional pot of money, which is generated when capital expenditure is planned or incurred on social housing or regeneration schemes. This may affect the amount of money that is pooled to the Government through sales of garage or sheltered scheme sites, for example, that are deemed surplus to requirement, which in turn will mean that the Authority will have further funding to invest in future capital schemes.
- 2.11.2.5 The estimate for 2009/2010 can be split into separate components, those being depreciation charge (equivalent to the Major Repairs

Allowance), a capital financing charge and a debt management charge. In addition to this, additional funding of the proposed 2009/2010 capital programme is required by way of a revenue contribution of £1,000,000.

2.11.3 Housing Subsidy

- 2.11.3.1 Housing Subsidy put simply is a tool that allows the Government to redistribute finances across the National 'Housing Revenue Account'. Housing Revenue Account subsidy is paid to or from the Government based on any shortfall/excess between expenditure and income on an authority's Housing Revenue Account (the notional Housing Revenue Account). The subsidy calculation is based on annual assumptions covering the rents each authority will charge (guideline rents), allowances for major repairs, management and maintenance (M&M), the Housing Revenue Account's share of debt financing and debt management costs, calculated in accordance with a formula, and other specific items of expenditure and income.
- 2.11.3.2 Within the subsidy calculation formula the Government determines an average "limit rent" for housing benefit subsidy purposes, which it deems the authority should charge. If the actual average rent is set above the guideline rent, subsidy penalties are levied by way of rent rebate subsidy limitation (paragraph 2.11.1 refers).
- 2.11.3.3 Since 2003/2004 there have been increases in excess of inflation for the subsidy maintenance allowance of 28.25% for 2004/05, 12.51% for 2005/06, 13.22% for 2006/07, 6.25% for 2007/08. The increase for 2008/2009 was 0.21%. This has meant an increase of around £1.3m over that period, whilst actual expenditure has on the whole remained in line with inflation. This will in the main explain the large surpluses that are currently being accrued within the Housing Revenue Account.
- 2.11.3.4 The final subsidy determination for 2009/2010 has now been published and this confirms that capital allowances will be at the same level to the current financial year. The capital allowance forms part of the Supported Capital Expenditure (Housing) and attracts subsidy in order to service the interest incurred through the associated borrowing.
- 2.11.3.5 The 2009/2010 final subsidy settlement has been worked through and it is calculated that the Council will have to pay £1.769m to the Department for Communities and Local Government (CLG), which equates to just over 16p in every pound collected in rent.
- 2.11.3.6 The government are currently in the process of reviewing housing finance and the future of the housing subsidy system is at the heart of that review. It is anticipated that initial recommendations will be made available for consultation during 2009 and should there be

any changes to the current system, are likely to be implemented from 2011/2012.

2.11.4 Housing Repairs

2.11.4.1 Housing repair expenditure covers both planned and responsive maintenance some of which is capital funded. The funding, which is split between the single capital pot allocation (SCE (R)) and the major repairs allowance (MRA) grant reflect this as the MRA can be spent on either capital or revenue works provided it is allocated to catch up repairs. Government guidelines have stated that local authorities should be moving away from responsive repairs and towards increased planned maintenance expenditure to achieve a spend ratio of 30:70.

2.11.4.2 Based on the draft proposed combined capital (£7,686,150) and revenue (£2,286,596) works programmes the financial split in 2009/2010 is likely to be as follows:

- Responsive Maintenance £2,349,897
- Planned Maintenance £7,622,849

2.11.4.3 This split will equate to a 24:76 spend ratio for 2009/2010 which is within the Governments recommended spend ratio.

2.11.4.4 The revenue expenditure budget funds all general day to day repairs, emergency repairs, repairs to void properties in order that they can be relet, lift maintenance, asbestos survey and removal, and central heating maintenance.

2.11.4.5 The proposed capital budget of £7,686,150 is split into Housing Revenue Account planned maintenance and disabled adaptations to council dwellings with budgets of £7,019,352 and £666,798 respectively.

2.11.4.6 The large planned maintenance programme for 2009/2010 is required in order to enable Medway to meet the Decent Homes Standard for all council dwellings by the end of 2009/2010. The budgeted figure takes into account expenditure originally planned to take place within 2008/2009, that has not been carried out whilst the council has undertaken a review of the proposed capital programme to ensure that both the council and tenants were receiving value for money.

2.11.4.7 The disabled adaptation budget was increased by £600,000 in 2008/2009 in order that a large backlog of works outstanding could be completed. Some of these works cannot be completed within 2008/2009 and therefore they will be added to the 2009/2010 programme of works. In addition to this, the normal annual budget will be increased by £50,000 to £150,000 to ensure the continuous programme is adequately funded.

- 2.11.4.8 The 2009/2010 capital programme is funded from the following sources:

Table 8 – Sources of Capital Funding

Source of Funding	£
Supported Capital Expenditure (Revenue)	735,000
Major Repairs Allowance/Reserve	3,248,403
HRA Revenue Contribution	1,000,000
Contribution from HRA Working Balance	2,702,747
Total	7,686,150

- 2.11.4.9 The projected movements relating to the Major Repairs Reserve for 2009/2010 are detailed below:

Table 9 – Major Repairs Reserve Balance

Major Repairs Reserve	£
Balance as at 31 March 2009	1,091,991
MRA 2009/2010	2,211,777
Projected Cont to Capital Programme 2009/2010	(3,248,403)
Projected Balance as at 31 March 2009	55,365

2.11.5 Housing Revenue Account Working Balance

- 2.11.5.1 There is a requirement to maintain a working balance within the Housing Revenue Account to safeguard the account from unplanned and unavoidable increases in expenditure or losses of income. It is generally accepted that the level should be at least equivalent to approximately £125 per property. At the 1 April 2008 this stood at £3,103,872. Using the recommended figure of £125 per property, the minimum level of Medway Council's Housing Revenue Account working balance should be in the region of £382,000.
- 2.11.5.2 The latest Housing Revenue Account revenue monitoring report shows an estimated in year surplus of £1,193,778 against that projected within the approved budget of £1,230,952. This will result in a working balance of £4,297,650 as at 31 March 2009. This will need to be matched against the revised business plan, which will be completed as soon as the next round of stock condition data has been uploaded and analysed.
- 2.11.5.3 The draft 2009/2010 Housing Revenue Account budget produces a surplus of £205,998, which will leave an estimated overall working balance of £1,800,901 after allowing for a contribution to fund the capital programme of £2,702,747.

- 2.11.5.4 Whilst the projected working balance is substantially greater than the minimum required, the 30-year Housing Revenue Account business plan requires significant revenue support towards the capital programme, specifically within the next few years to both reach and maintain all properties at the Decent Home Standard.

3. Consultation

- 3.1 The Housing Act 1985 defines the legal requirements for informing tenants of rent increases. In practice this requires the issue of written notification to each tenant a minimum of four weeks in advance of the date that the increase becomes operative. For 2009/2010 the latest date for posting the notices is 6 March 2009.
- 3.2 As detailed within section 10 of 'The Housing Revenue Account Business Plan 2005/2034', the council has developed a tenants charter detailing how we will consult and engage with tenants in partnership with MeRGe (the Tenants Forum).
- 3.3 In order to support this commitment, MeRGe will be consulted at their meeting scheduled for 10 February 2009, through a presentation by officers of the proposed Housing Revenue Account revenue and capital budgets for 2009/2010. The views of Merge will be available to Cabinet when they consider these proposals, together with the rest of the Council budget at the meeting to be held on 17 February 2009.

4. Financial and legal implications

- 4.1 The financial implications are contained within the body of this report, and in more detail within the background papers.
- 4.2 Under Section 76 of the Local Government & Housing Act 1989, the council is required, in advance of the financial year, to formulate proposals which satisfy the requirement that, on certain stated assumptions, the Housing Revenue Account for that year does not show a debit balance. The council is obliged to implement those proposals and from time to time to determine whether the proposals satisfy the 'break even' requirement. If not, then the council shall make such provisions as are reasonable practicable towards securing that the proposals as revised, shall satisfy the requirement.
- 4.3 Under Section 24 of the Housing Act 1985, the council can make such reasonable charges as it determines for the tenancy or occupation of its houses. The council is obliged, from time to time, to review rents charged and make such changes, as circumstances may require. In exercising this function (determining and fixing rent), the council should have regard to the rents charged in the private sector.
- 4.4 A decision to increase rent constitutes a variation of the terms of a tenancy. Under Section 103 of the Housing Act 1985, in respect of secure tenancies, a notice of variation (specifying the variation and date on which it takes effect) must be served on each tenant. For non-

secure tenancies (excluding introductory tenancies), a notice must be served that complies with Section 25 of the Housing Act 1985.

- 4.5 The Housing Act 1985 defines the legal requirements for informing tenants of rent increases. In practice this requires the issue of written notification to each tenant a minimum of 4 weeks in advance of the date that the increase becomes operative. For 2009/2010 the latest date for posting the notices is 6 March 2009.

5. Recommendations

- 5.1 The Committee is asked to recommend to Cabinet:

5.1.1 The proposed Revenue and Capital Budgets for 2009/2010, inclusive of an average rent increase of £3.81 per week (based upon 50 collection weeks and equating to an increase of 5.63%);

5.1.2 That service charges for 2009/2010 reflect the costs incurred in providing that service, where possible, and that costs increase by no more than inflation (5.0%, that being the Retail Price Index [all items] for September 2008) plus 0.5% over that charged in 2008/2009. The average increase will be 4.48%.

5.1.3 The proposed increase in garage rent charges of 5.0%, that being the Retail Price Index (all items) for September 2008;

5.1.4 A review of the caretaking service should take place in order to ensure that value for money is obtained for tenants.

- 5.2 And that the Committee:

5.2.1 Considers the performance measures and targets including those for management and maintenance costs per property.

Lead officer contact

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Background papers

Best Value Accounting Code of Practice - Chartered Institute of Public Finance and Accountancy (2000).

A New Financial Framework for Local Authority Housing: Guidance on Stock Valuation – Department of the Environment, Transport and the Regions (2000).

A Guide to Social Rent Reforms in the Local Authority Sector - Department of the Environment, Transport and the Regions (2002).

Three-Year Review of Rent Restructuring – Office of the Deputy Prime Minister (2004).

Housing Revenue Account Business Plan 2008/2038 Financial model available from Andy McNally-Johnson, Senior Accountant (Housing & Public Health), Gun Wharf.

Housing Revenue Account revenue budget working papers 2009/2010 held by Andy McNally-Johnson, Senior Accountant (Housing & Public Health), Gun Wharf.

Local Government and Housing Act 1989.

Local Government Act 2003.

HOUSING REVENUE ACCOUNT BUDGET SUMMARY

	Budget 2008/09			Forecast 2008/09			Proposed Budget 2009/10		
	Exp	Income	Net	Exp	Income	Net	Exp	Income	Net
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Housing Revenue Account									
H.R.A. Working Balance B/f			(3,104)			(3,104)			(4,298)
Housing Management	1,028	0	1,028	1,052	0	1,052	1,066	0	1,066
Estate Management	968	(6)	961	956	(6)	949	1,037	(7)	1,031
Housing Maintenance	2,659	(0)	2,659	2,746	(0)	2,746	2,868	(0)	2,868
Sheltered Housing	793	(1)	792	712	(0)	712	720	(1)	719
Caretaking Service	401	(34)	367	424	(34)	390	433	(35)	398
Rent Rebate Subsidy Limitation	57	0	57	130	0	130	133	0	133
Capital Financing Costs	3,114	0	3,114	3,051	0	3,051	4,043	0	4,043
Rent Income	0	(11,459)	(11,459)	0	(11,301)	(11,301)	0	(11,974)	(11,974)
Housing Subsidy	1,440	0	1,440	1,483	(11)	1,472	1,770	0	1,770
Other Income	0	(190)	(190)	0	(395)	(395)	0	(259)	(259)
Total Housing Revenue Account	10,459	(11,690)	(1,231)	10,554	(11,748)	(1,194)	12,070	(12,276)	(206)
Further Revenue Contribution to Capital Expenditure									2,703
H.R.A. Working Balance B/f			(4,335)			(4,298)			(1,801)

AVERAGE RENT INCREASES BY PROPERTY TYPE (50 WEEKS)

Property Type	2002/2003 Actual Rent	2003/2004 Actual Rent	2005/2006 Actual Rent	2006/2007 Actual Rent	2007/2008 Actual Rent	2008/2009 Actual Rent	2009/2010 Projected Rent	Average Increase 2008/2009 to 2009/2010	Average Percentage Increase 2008/2009 to 2009/2010	2010/2011 Projected Rent	2011/2012 Projected Rent	2012/2013 Projected Rent
Bedsit Bungalow	£40.36	£42.03	£46.13	£48.00	£50.53	£53.03	£56.04	£3.01	5.89%	£57.52	£59.34	£61.37
Bedsit Flat	£34.12	£36.19	£40.72	£43.00	£46.24	£49.42	£52.32	£2.90	6.11%	£53.83	£55.64	£57.67
1 Bedroom Bungalow	£51.39	£52.71	£56.79	£58.36	£60.49	£62.74	£66.14	£3.40	5.64%	£67.75	£69.73	£71.96
1 Bedroom Flat	£40.94	£43.17	£48.05	£50.63	£53.99	£57.34	£60.67	£3.34	6.06%	£62.39	£64.46	£66.77
2 Bedroom Bungalow	£58.83	£60.17	£64.56	£64.70	£67.25	£70.90	£74.69	£3.80	5.57%	£76.45	£78.62	£81.09
2 Bedroom House	£59.62	£61.34	£66.14	£68.03	£70.60	£73.37	£77.37	£3.99	5.66%	£79.26	£81.59	£84.22
2 Bedroom Flat	£46.14	£48.62	£53.35	£56.13	£59.96	£63.87	£67.60	£3.73	6.08%	£69.51	£71.83	£74.43
3 Bedroom Bungalow	£71.31	£71.98	£75.83	£77.15	£79.16	£81.45	£85.69	£4.23	5.40%	£87.57	£89.93	£92.60
3 Bedroom House	£65.12	£66.96	£72.07	£74.47	£77.67	£81.15	£85.64	£4.49	5.76%	£87.81	£90.47	£93.46
3 Bedroom Flat	£48.10	£50.46	£56.45	£60.01	£65.07	£69.83	£74.08	£4.25	6.34%	£76.35	£79.07	£82.11
4 Bedroom House	£73.21	£74.59	£79.67	£82.01	£85.17	£88.67	£93.51	£4.84	5.67%	£95.79	£98.61	£101.80
Sheltered Bedsit for the Disabled	£37.63	£40.76	£43.59	£43.64	£46.28	£49.45	£52.23	£2.78	5.84%	£53.58	£55.24	£57.12
Sheltered Bedsit	£37.85	£40.94	£43.73	£43.77	£46.20	£49.16	£51.95	£2.79	5.90%	£53.32	£55.00	£56.88
1 Bedroom Sheltered	£49.96	£51.94	£52.66	£53.92	£55.84	£57.90	£61.02	£3.12	5.60%	£62.47	£64.27	£66.30
2 Bedroom Sheltered	£42.68	£45.92	£48.97	£52.18	£57.19	£61.37	£65.05	£3.68	6.24%	£67.00	£69.34	£71.95
3 Bedroom Sheltered	£49.13	£51.88	£57.10	£60.25	£64.11	£68.37	£72.44	£4.07	6.19%	£74.56	£77.12	£79.97
1 Bedroom Sheltered Bungalow	£61.17	£62.14	£62.69	£62.94	£63.96	£64.45	£67.60	£3.15	5.09%	£68.89	£70.54	£72.43
Overall Average	£52.08	£54.16	£58.73	£61.15	£64.29	£67.58	£71.39	£3.81	5.63%	£73.26	£75.55	£78.12