



Budget Panel
23 September 2009

**Report from the Director of Housing
and Community Care**

Wards Affected:
ALL

Housing Revenue Account (HRA) Update

Forward Plan Ref:

1.0 Summary

1.1 This report updates the budget panel on key issues and the latest development concerning the HRA. In particular, the report sets out details on the HRA Business Plan, the recently published consultation on the Reform of Council Finance, and the current HRA Forecast Outturn for 2009-10.

2.0 Recommendations

2.1 Members are asked to note the contents of this report.

3.0 Detail

Introduction and Background

3.1 The HRA contains the income and expenditure relating to the Council's landlord duties in respect of approximately 9,450 Council dwellings. The current HRA regime was established by Local Government and Housing Act 1989 and started on 1st April 1990. The HRA is a "ringfenced" account, which means that the expenditure on the Council's housing stock has to be met by the income relating to it, and funds cannot be switched between the HRA and the General Fund. There are limited cases of permitted movement between the revenue two accounts, for example debt charges.

3.2 The following items of expenditure must be charged to the HRA:-

Expenditure

Supervision and Management of Council dwellings
Repairs and Maintenance
Rent and Rates
Loan Charges

The following items of income must be credited to the HRA:-

Income

Rents form Council Dwellings
HRA Subsidy
Other income including commercial rents
Charges for Services and Facilities
Interest Receivable

HRA Business Plan

- 3.3 The Council's HRA Business plan 2002 received an excellent 4* rating, was deemed "fit for purpose" by the Government and led to the establishment of Brent Housing Partnership (BHP) Ltd, the council's Arms Length Management Organisation. BHP was given the responsibility for the management and maintenance of the Council's housing stock, including the delivery of the housing stock investment programme to meet the Government's decent homes standard. BHP completed its decent homes standard investment programme in 2006, well ahead of the Government's target date of 2010, using £68m of capital resources provided through the Government's ALMO programme.
- 3.4 A report to the Council's Executive on 16 February 2009 briefed members on the key issues arising out of the updated 30 year HRA Business Plan 2009. The key issues identified were:-
- 3.4.1 The initial projection of the investment needs of the housing stock over a 30 year period, will be a net shortfall of the region of £518m including South Kilburn stock and £414m excluding South Kilburn Stock; and
- 3.4.2 The initial projection for the Operational HRA (both including and excluding South Kilburn housing stock) is that the account is likely to be running into a net deficit from year 5. Remedial actions will be required to prevent this happening, as Local Authorities are legally required to set a balanced HRA budget each financial year.
- 3.5 The report discussed the following key options for addressing the HRA business plan:-
- Stock retention (PFI and/or self-financing (dependent upon Housing Finance Reform);
 - Stock transfer; and
 - Future role of BHP (again dependent upon Housing Finance reform).
- 3.6 The Executive noted the report and agreed that a further report be submitted to members once certain stock condition data had been updated and the outcome of the Government's review of Council Housing Finance is known.

Council Housing Finance Reform

Current System

- 3.6 The current (and now discredited) national Housing Finance system is a major factor leading to the negative position on the Council's HRA business plan. The problems with the current system include:-
- 3.6.1 The requirement for authorities to contribute their rent income (and annual rent increases) back to the Government for distribution to other areas;
 - 3.6.2 Local responsibility and accountability is weak;
 - 3.6.3 The fairness of the system depends on the accuracy of assumptions made about spending in over 200 councils, which is difficult to manage nationally;
 - 3.6.4 The system is broadly in balance nationally (some say it is positive), with around two-thirds of Councils paying notional surpluses into the system, with only a third (including Brent) receiving subsidy. Furthermore, the system is predicted in the medium/long term to go significantly positive nationally;
 - 3.6.5 The annual nature of the process, with the volatility that it brings, makes it difficult for Councils to plan long term. There are currently annual changes in the system at short notice; and
 - 3.6.6 The system is not transparent and is complex. It is hard to understand and often its outcomes are difficult to predict.

The Proposed System

- 3.7 The Government published is long awaited consultation on the reform of Council Housing Finance in July 2009. The consultation finishes on 27 October 2009, and the main proposals are:-
- 3.7.1 The HRA ringfence should continue and be strengthened, and should include capital;
 - 3.7.2 Additional funding for Management and Maintenance Allowances (5% nationally), Major Repairs Allowances (54% nationally), and lifts and common parts;
 - 3.7.3 To allow local authorities to set up sinking funds for works to leaseholders stock;
 - 3.7.4 Two options are set out for the fundamental reform of the system. These are:-
 - 3.7.4.1 Improvements to a national system for funding council housing – in which revenues continue to flow between local and central government as a result of ongoing assumptions made by Government about landlord costs; and
 - 3.7.4.2 A devolved system (self financing) in which rents are retained by councils to spend on their own services, in exchange for a one off reallocation of debt.
 - 3.7.5 To allow local authorities to keep 100 per cent of their right to buy receipts, with a requirement that at least 75% is re-invested in housing.

- 3.8 Generally, the consultation proposals have been widely welcomed by Housing and Finance professionals alike. The option to introduce a devolved system of Housing Finance with local authorities being allowed to keep future revenue and capital receipts is encouraging. However there are some authorities (some of those who currently pay into the system) that find the proposal for the reallocation of debt difficult to accept. Broadly speaking, the two-thirds of authorities that pay into the system at the moment would swap negative subsidy for additional debt, while the third that receive subsidy (like Brent) will have their debt reduced so that they can manage their affairs without the need for subsidy. The Government has indicated that if legislation is required to effect the proposed changes, then the self financing option would not be in place before 2012-13. However this could be accelerated, maybe to as early as 2010 if agreement could be achieved by Councils for a national debt settlement.
- 3.9 At a local level, if and when the proposals are confirmed, it would be necessary to update the council's HRA business plan in order to model the impact of the changes. An initial assessment on the financial aspects of the proposals shows that in particular the adoption of a devolved self financing system would bring about considerable additional resources building up over time (arising out of the ability to keep annual rent income and relaxation of the capital receipts pooling requirements). This is however subject to the technical detail of the redistribution of HRA debt, and assumes that this would be neutral at a local level (to include being neutral on the General Fund).
- 3.10 Finally, it is not clear at this stage whether a change of Government in the 2010 General Elections would continue with these plans.

HRA Budget Forecast 2009-10

- 3.11 The HRA budget for 2009-10 was agreed by the Executive on 16 February 2009. The current forecast outturn for 2009-10 is an overspend of £42k, and this comprises the following items:-
- 3.11.1 Rent Income – Additional £154k income forecast from HRA commercial properties;
- 3.11.2 Capital Financing – forecast overspend of £155k, mainly associated with borrowing costs on the build of Granville New Homes.
- 3.11.3 Housing Repairs – forecast underspend of £112k due to capitalisation of revenue costs.
- 3.11.4 General management – Forecast Overspend of £153k – this budget forecast contains many budget lines, but the most significant is a forecast overspend of £1.017m on communal electricity, which is offset in part by a number of underspending budgets on general and supervision management.

4.0 Financial Implications

- 4.1 This report is wholly concerned with financial issues.

5.0 Legal Implications

- 5.1 Under section 74 of the Local Government and Housing Act 1989 (“the 1989 Act”), the Council is required to keep a separate Housing Revenue Account of sums falling to be credited or debited in respect of its housing stock. Sections 75 and 76 of the 1989 Act set out the rules for establishing and maintaining that account. Under section 76 of the 1989 Act, the Council is required to formulate in January and February of each year proposals for the HRA for the following year which satisfy the requirements of that section and which relate to income, expenditure and any other matters which the Secretary of state has directed shall be included.
- 5.2 In formulating its HRA budget proposals the Council must secure that upon their implementation the HRA will not show a debit balance assuming that the best assumptions and best estimates it can make at the time prove to be correct. Put simply, the legislation requires the Council to prevent a debit balance, to act reasonable in making assumptions and estimates and to act prudently.
- 5.3 The Act also requires the authority to review the proposals from time to time and make such adjustments as are necessary to ensure that the requirements, as set out above, continue to be met.
- 5.4 This report sets out the Government’s options and proposals for changing the Council Housing Finance System. With regard to the self financing proposals, if councils could agree on the basis of the settlement voluntarily, then the Government could use the powers of the Housing and Regeneration Act could be used to implement this. If this could not be brought about, then the Government would need to secure primary legislation to achieve a national settlement.

6.0 Diversity Implications

- 6.1 There are no specific diversity implications arising from this report.

7.0 Staffing/Accommodation Implications

- 7.1 There are no specific staffing/accommodation implications arising from this report.

8.0 Background Information

Review of HRA business plan - report to Executive on 16 Feb 09
Reform of Council Housing Finance – Consultation July 2009
HRA budget working papers

Any person wishing to inspect the above papers should contact:

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