

APPENDIX B.3

WAVERLEY BOROUGH COUNCIL

EXECUTIVE - 6 JANUARY 2009

Title:

**FINANCIAL STRATEGY 2009/10 – 20012/13
HOUSING REVENUE ACCOUNT BUDGET
2009/10**

[Portfolio Holder: Cllr Mike Band]
[Wards Affected: All]

Summary and purpose:

In December Members considered the base estimated position for the Housing Revenue Account (HRA) revenue budget for 2009/10 in view of the draft housing subsidy determinations received from the Department for Communities and Local Government (CLG). This report gives Members a further opportunity to consider the possibilities in more detail.

How this report relates to the Council's Corporate Priorities:

The landlord service deals with delivering affordable housing and improving lives – two of the Council's five corporate priorities. A robust budget needs to be in place to aid the delivery of these priorities.

Equality and Diversity Implications:

As a social landlord Waverley strives to understand the housing need and provide social housing to all strands of the Borough's population.

Resource/Value for Money implications:

Resource implications are contained throughout the report.

Legal Implications:

There are no direct legal implications as a result of this report.

Introduction

1. The annual Finance Seminar that took place on 27 October highlighted the key issues affecting Waverley's landlord service and the ongoing difficult decisions that will need to be made as part of the 2009-10 budget process and for the longer term in order to maintain a viable service.

2. Service delivery is already under review. Posts at the senior end of the service have been deleted with resultant savings in 2009-10 and the process of examining all vacancies will continue both to help achieve savings and improve service delivery. Reductions in staff costs can be reinvested in the service, particularly maintenance. The proposals within the draft estimates have been subjected to rigorous scrutiny through the 'star chamber' that is part of the budget preparation process.

2009-10 Draft Revenue Estimates

3. The HRA is driven by the Government's decisions with regard to the national housing revenue account and the housing subsidy regime. As Members will be aware, a full review of this system is taking place and is due to report to Ministers in Spring 2009. Consultation on the resultant proposals will be taken forward in the light of the timetable for the next comprehensive spending review.
4. Until the outcome of the review is known, Communities and Local Government (CLG) wish to avoid significant changes to the current system and maintain as stable a position as possible over the next two financial years. To this end the Draft Subsidy Determinations, issued on 29 October 2008, set the parameters for constructing both the 2009-10 and the 2010-11 Determinations.
5. From Waverley's perspective the most important proposal is the proposed fixing of the average rent increase. Instead of the guideline rent increase being dependant on the prevailing level of inflation in the previous September, CLG propose using a fixed average guideline rent increase for both 2009-10 and 2010-11 and adjusting the rent convergence date accordingly. The Deputy Chief Executive responded to the proposals on the Council's behalf, suggesting some modification. However, the original proposals have now been confirmed in the final Determination issued on 18 December. The intention of this change is to protect tenants from both high and variable increases in inflation. Without this change the guideline rent increase for 2009-10 would have been around 9% leading to even higher actual rent increases. Instead the Government's national rent guideline is an increase in guideline rents of 6.2%.
6. The impact of these proposals is that the increase in Waverley's negative subsidy in 2009-10 is likely to be around half of what it might have been under the current subsidy rules with rent convergence by 2011-12. However, even with these proposed changes, Waverley will still be paying 48.7% of tenants' rent to the Government. Rent convergence with Housing Associations will not now occur until 2024/25.
7. Waverley's actual rent is currently above Government guidelines and increasing the actual rent in accordance with rent restructuring guidelines produces an average rent increase for Waverley's tenants in 2009-10 of 5.8% rather than the headline 6.2%. Whilst this level of increase at 5.8% would generate much needed resources to increase spending on essential services as well as enabling Waverley to meet its negative subsidy obligations, the

Council has to balance the impact on tenants. Combined with other savings and efficiencies being made in the landlord service, this gives some flexibility to look at different spending options e.g. increase preventative cyclical maintenance, make a revenue contribution to decent homes work or choosing a rent increase slightly below the Government guideline to relieve the demands on tenants. Proposals currently being incorporated in the draft estimates, summary attached at Annexe 1, are as follows;

Key Budget Assumptions	£'000
• Minimum working balance increased to £1.25m	250
▪ Provision for preventative maintenance (external envelope work – Old Park Close and other sites pre-inspected, gutter cleaning)	495
• Smoke detectors in sheltered accommodation	50
• Internal decorating - communal areas flat blocks and sheltered.	75
• Less: Staff savings (Star Chamber)	<u>-261</u>
Net Increase in Revenue Costs	<u>609</u>

8. Funding these additional works and allowing for revenue balances to be maintained at £1.25m implies a **minimum rent increase of 4.1%**. The Deputy Chief Executive – the Council's S151 officer, considers this level of balances appropriate given the pressures facing the HRA.
9. Whilst a 4.1% rent increase allows for some additional preventative maintenance it does not allow for any contribution to the capital programme to undertake essential works. Any revenue contribution to capital would require a rent increase in excess of the minimum 4.1% referred to above. A revenue contribution (RCCO) of £100,000 to (for example) expand the programme of kitchen upgrades would increase rents by a further 0.9% thereby increasing the average rent to 5%.
10. The effect of a range of rent increases is illustrated at Annexe 2.

Conclusion

11. Waverley will pay 48.7% of its rent income to the Government in 2009-10. The proposals however, to fix guideline rent increases for the next two financial years, whilst not improving the financial situation for tenants, do not force rents up to the anticipated point where over 50% of tenants' rent would be paid to the Government. Potentially a small amount of resources are freed up if rents are increased in line with CLG expectations. Negative subsidy will increase by some £727k but an average rent increase of 5.8% will generate some £1.2m of revenue that gives greater flexibility over spending options.

Recommendation

It is recommended that

1. the Executive asks the Community Overview and Scrutiny Committee
 - a. to consider the detailed HRA budget papers for 2009-10 and identify spending priorities within the landlord service;
 - b. to consider whether a RCCO should be added to the rent increase to pay for additional decent homes work and therefore what level of rent increase the Committee would consider to be appropriate ; and
2. the Executive gives final consideration to the HRA budget for 2009/2010 at its meeting on 3 February 2009.

Background Papers (DCEX)

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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