

COUNCIL
20th FEBRUARY 2008

**HOUSING REVENUE ACCOUNT ESTIMATES 2007/2008 TO 2010/2011 AND
FIRST CHOICE HOMES OLDHAM MANAGEMENT FEE 2007/2008 AND 2008/2009**

**JOINT REPORT OF THE EXECUTIVE DIRECTOR, ADULT AND COMMUNITY
SERVICES AND THE DIRECTOR OF FINANCE**

1.0 Purpose of Report

1.1 The report informs the Council of the following items: -

- (a) The Housing Revenue Account (HRA) revised estimates for 2007/2008 and estimates 2008/2009.
- (b) The strategic HRA estimates for 2009/2010 and 2010/2011.
- (c) The First Choice Homes Oldham (FCHO) Management Fee for 2007/2008 and 2008/2009.
- (d) The rent increase from the 7th April 2008 and the increases for other non-dwelling rents and services charges from the 7th April 2008.
- (e) The Final HRA Subsidy Determination for 2008/2009.

1.2 The report recommends that the Council approve the proposals made

- (a) To ensure balances of at least £750k in the HRA by 31st March 2011.
- (b) For the Management Fee payable to FCHO for 2007/2008 and 2008/2009.
- (c) For the rent increase from the 7th April 2008 and for the increases for other non-dwelling rents and service charges from the 7th April 2008.

2.0 Executive Summary

2.1 The report sets out the HRA estimates for 2007/2008 revised and 2008/2009 original following the receipt of the Final HRA Subsidy Determination and the steps taken to balance the account. The opportunity is also taken to present strategic budgets for 2009/2010 and 2010/2011.

2.2 In addition, the method taken in setting the FCHO Management Fee is set out in detail.

3.0 Recommendations

3.1 The Council is recommended to;

- (1) note the forecast out-turn for 2007/2008;
- (2) approve the proposed HRA budget for 2008/2009, noting the proposed actions to be taken (including the incentivisation of FCHO to improve rent collection rates);
- (3) agree the management fee due to FCHO in 2008/2009;
- (4) approve the proposed increases in dwelling rents, non-dwelling rents, service charges and leaseholder service charges;
- (5) note the strategic forecasts for 2009/10 and 2010/11; and

4.0 Introduction

- 4.1 The budget and policy framework, approved by the Cabinet in November 2002, set out an annual timetable for the HRA budget process. Production of this report and the ability to scrutinise the budget, are key features of that framework, along with consultation with tenants, local area Boards and the Main Board of the Arms Length Management Organisation (ALMO), FCHO, set up by the Council to manage its housing stock from the 1st April 2002.
- 4.2 An earlier report was scrutinised by the Performance and Value For Money Select Committee on 31st January 2008 ~ no further recommendations were made to Cabinet.
- 4.3 The production of the HRA budget for 2008/2009 and the strategic budget projection for 2009/2010 and 2010/2011 have been compiled based upon the work currently being undertaken to produce a new 30 year HRA Business Plan which will form an integral part of the Housing Stock Options Appraisal approved by Cabinet on 10th December 2007.

5.0 Consultation with FCHO

- 5.1 The Council has set up FCHO to which it has delegated the management and repair responsibility for the HRA dwelling stock. Although the HRA estimates and rent and charges setting remain the responsibility of the Council, the opportunity has been taken to consult with FCHO and to ask for their recommendations in the setting of the HRA budget.
- 5.2 Finance and Audit Committee has previously considered the budget position and the Main Board of FCHO will consider a report regarding the FCHO budget at a meeting on 27th February 2008, when this report will be included as an appendix for approval of the proposed management fee.

6.0 Housing Subsidy Determination

6.1 The 2008/2009 Final Determinations were received on the 15th January 2008. The final allowances are:

- **Management Allowance:** £584.40 per property, an increase of 0.69% on 2007/2008.
- **Maintenance Allowance:** £1,060.54 per property, an increase of 0.80% on 2007/2008.
- **Guideline Rent:** £2,821.49 per property (£58.78 a week ~ on a 48 week basis), an increase of 5.59% on 2007/2008.
- **Major Repairs Allowance:** £635.16 per property, an increase of 1.61% on 2007/2008.
- **ALMO Allowance:** £6,912,000, remains at the same level as that received in 2007/2008.
- **PFI Allowance:** £9,899,488, remains at the same level as that received in 2007/2008.

6.2 There only two differences to the draft determinations ~ Maintenance Allowance (which is 1p per property lower) and Major Repairs Allowance (which is 1p per property higher).

7.0 Rent Restructuring

7.1 The DCLG (then ODPM), from 2002/2003, started to introduce the changes outlined in the Government's policy statement; *Quality and Choice: A Decent Home for All – The Way Forward for Housing*. This document set out a new method of calculating property rents in the social housing sector. This method proposes that rent setting should be brought onto a common system based upon relative property values and local earnings levels.

7.2 Authorities were required to start restructuring their rents in 2002/2003 and complete the process over a ten-year period. 2008/2009 is the sixth year of this exercise. Although there is some Authority discretion over the precise pace and timing of the change, the Determination assumes a movement in equal instalments over the ten-year period. This Authority adopted an approach that it would phase in restructuring equally over the ten-year period (Housing Committee: 26th July 2001).

7.3 As stated in paragraph 6.1, above, the draft guideline rent increase for 2008/2009 is 5.59%. For 2006/2007 and 2007/2008, however, the DCLG requested that authorities limit individual rent increases to 5% ~ a request that this Council complied with in both years. For 2008/2009, the DCLG has requested that councils revert back to the full rent restructuring process. This will require an average rent increase of 7.06%.

7.4 Whilst the average increase is 7.06%, there is actually a wide range of increases that would be applied at individual tenant level. The majority of the increases fall between 5% and 9%, with 333 tenants receiving increases of below 5% and 11 receiving increases of above 9% (the highest being 9.17%). In cash terms, the weekly increases vary from £0.36p to £5.42 a week (on a 48 week basis).

7.5 In 2006/2007 and 2007/2008, the DCLG paid a Rental Constraint Allowance (RCA), through HRA Subsidy, to mitigate losses incurred by those councils that complied with

the 5% rent caps ~ the guideline rents (in HRA Subsidy) did not reflect the 5% cap and, therefore, councils collected less income than the subsidy system assumed. As the cap has been removed in 2008/2009, the RCA has been also.

8.0 The HRA Base Budget

8.1 The base budget for 2007/2008 revised and 2008/2009 is attached at Appendix A. The budgets reflect the financial commitments arising from maintaining the Council's policies throughout 2008/2009.

9.0 The HRA Budget 2007/2008

9.1 The revised HRA budget for 2007/2008 shows a year-end working balance of £1,164k, some £213k higher than in the original budget. This has been reported to members on a regular basis throughout the year.

10.0 The HRA Budget 2008/2009

10.1 The HRA budget for 2008/2009 has been produced on the basis of the following assumptions:

- (1) Further stock reductions due to Right to Buy and Demolitions assumed to be 150 in total during 2008/2009;
- (2) Void levels remaining at their current level (700);
- (3) Re-introduction of rent restructuring rules;
- (4) Inclusion of £481k for stock option appraisal work ;
- (5) The level of FCHO management fee is at the level determined by the formula as agreed between the Council and FCHO. The details of the management fee formula calculation are set out in further detail at paragraph 11.0 below;
- (6) An allowance for the costs of developing the Round 4 PFI bid (Gateways to Oldham) from outline to final business case be accommodated within the HRA;
- (7) The maintenance of a PFI2 Reserve to ensure all future financial obligations (to the HRA) for the scheme can be met;
- (8) A provision of £30k has been made for a grant to Housing Aid (now within the CAB). This is a grant to assist in the costs associated with the provision of services provided to Council Tenants;
- (9) The cessation of the Asylum Seekers Induction contract on 31st March 2008;
- (10) No voluntary debt repayment provision in any year; and
- (11) There are 48 rent weeks in 2008/2009.

10.2 An analysis of variances between 2007/2008 revised budget and the original budget for 2008/2009 is given in Appendix C.

- 10.3 The Director of Finance has previously recommended that the HRA should maintain a balance of at least £750k.
- 10.4 The figures presented show a closing working balance of £235k at the end of 2008/2009, providing all other assumptions can be achieved. This is £515k lower than the level recommended by the Director of Finance.
- 10.5 Whilst the three-year projection shows that balances will increase to £1.125m (March 2011), the Council will be taking a financial risk if it were to allow balances to remain below the recommended level for the next two years. Risk Assessment is covered in Section 13 (and Appendices D and E).
- 10.6 Most risk is through further stock reduction and increased void levels. It is believed that assumptions made are already very prudent, reducing the likelihood of a worsening financial position. Indeed, these are areas that need to be targeted to improve the Council's financial position.
- 10.7 The Council needs to do all it can to mitigate reducing balances in 2008/09 and 2009/10. The following areas will, therefore, be reviewed over the next few weeks:
- FCHO Management Fee ~ ensuring that services provided by FCHO are paid from the appropriate Council budget (HRA or General Fund).
 - Void Levels ~ Approximately 500 properties are held empty within the PFI2 portfolio, allowing temporary moves for refurbished/demolished/new build properties. The Council will discuss, with Housing 21, ways to reduce the level of voids and maintain a smooth programme.
 - Arrears ~ The increase in Provision for Bad and Doubtful Debts is directly related to arrears owed to the Council. Improved collection rates, therefore, have a direct financial benefit to the Council. FCHO need to be incentivised to improve its collection of current and former tenant arrears (as was proposed in the draft new agreement).
 - Central Support Recharges ~ A review of Corporate and Democratic Core and other central costs is currently underway. It is anticipated that, as a result, there will be a reduced recharge to the HRA.
- 10.8 It is anticipated that once the above reviews have been completed, the HRA balance forecast for March 2009 will exceed £500k (still lower than the recommended minimum balance), and will exceed £1,800k by March 2011.

11.0 The FCHO Management Fee 2007/2008 and 2008/2009

11.1 Management Fee 2007/2008

- 11.1.1 The 2007/2008 FCHO Management Fee included in the revised budget reflects that fee proposed by the Council in February 2007. Additional fee has been paid to FCHO to cover costs incurred in maintaining the TV Aerial systems in those properties included in PFI2. The table below shows the movements in the 2007/2008 FCHO Management Fee:

Management Fee 2007/2008	£
Agreed Cabinet 10/03/2006	24,147,480
TV Aerial maintenance ~ PFI2 properties	15,000
Total	24,162,480

11.2 Management Fee 2008/2009

11.2.1 The financial year 2008/2009 is the seventh year of the operation of the Council's ALMO. The Management Fee for the this year has been calculated on the basis specified in the agreement using a formula that takes account of the following;

- (1) The increase in HRA Subsidy Management and Maintenance Allowances from 2007/2008 to 2008/2009;
- (2) The movement in stock numbers from April 2006 to April 2007 (estimated);
- (3) Allowances for certain costs, associated with PFI2 properties, that are not the responsibility of Oldham Retirement Housing Partnership.

11.2.2 Using this formula allows a calculation of the Management Fee that mirrors the factors contained in the HRA Subsidy that this Authority receives and is undertaken on a clear and open basis. It also allows the conversion of the Management Fee into an "allowance" per property managed. This calculation covers all services provided with the exception of heating energy costs which are fully reimbursed (FCHO is still responsible for energy costs and TV aerial maintenance costs in PFI2 properties).

The method and calculation of the Management Fee is shown at Appendix B.

12.0 Dwelling Rent, Non-Dwelling Rents and Services Charges and Leaseholder Charges Increases 2008/2009

12.1 The HRA 2008/2009 budget has been calculated taking into account a 10% limit on individual rent increases, as outlined at paragraph 10.1 above. Normal practice is to recommend increases in non-dwelling rents and services charges separately for approval. The table below shows the proposed increases:

	Rent and Service Charge	Proposed Increase %	Value per Year
1	Garage rent	2.5	£k 8
2	Other services charges	2.5	2
	Total		10

12.2 Heating charges were increased from October 2006 and the programme to install meters and controls is virtually complete. No price increase was introduced in 2007/2008. A 5% price increase is required from April 2008 to reflect increases in energy costs and the fact that there is one less rent week in 2008/2009. Due to the high volatility of the

energy market, costs and income will be closely monitored during the year. At this stage, a mid-year review of charges cannot be ruled out.

- 12.3 Leaseholders who pay service charges will see those charges rise by inflation (4.0%) from 1st April 2008. A review of leaseholder charges is still underway, to ensure that the Council is charging appropriately. This is estimated to generate additional income of approximately £10k.

13.0 Risk Assessment

- 13.1 The HRA budget set out in this report is based on our joint best assessment of the likely financial position of the HRA in 2007/2008 and 2008/2009. Attached at Appendix D is a risk register and at Appendix E a risk assessment as at January 2008. Forecasting is extremely difficult and there are a number of key issues that, should they change, will affect the proposed budget. These are set out below
- 13.2 As stated in paragraph 10.1 above the budget has been prepared on the basis that there are further reductions in stock of 150 properties due to Right to Buy sales and demolitions. There is a potential that stock losses may exceed this level. Firstly, the HMRF prospectus includes a significant amount of demolition, the timing of which is uncertain. Secondly, there is a risk that Right to Buy sales may continue to increase beyond current levels. Each additional property lost would cost the HRA £1,600 in a full year, so if a further 100 were lost throughout 2008/2009 the overall loss would be in the region of £80k, which would need to be accommodated within the total HRA budget.
- 13.3 There would be a risk to income if the average void level were higher than the 5% budgeted for in 2008/2009. The impact upon income is that a 1% increase in voids costs approximately £390k in a full year
- 13.4 The creation of an ALMO to have responsibility for the management and maintenance of HRA housing stock introduces an area of risk for the HRA. The replacement of directly controlled budgets with the payment of a management fee to an arms length company is an additional risk for the HRA. In addition the need for FCHO to restructure to meet changing service delivery requirements and the reduction in stock numbers will need the support of the Council and the HRA to achieve.

14.0 Strategic HRA estimates 2009/2010 and 2010/2011

- 14.1 The projected forecasts for 2009/2010 and 2010/2011 are attached at Appendix F. The projection reflects the financial commitments arising from maintaining the Council's current policies. Due to the level of ongoing uncertainty over stock losses the figures identified are likely to be subject to change as the future becomes more certain.
- 14.2 The projections made indicate a net improvement in the financial position of the HRA during 2009/2010 and 2010/2011. But there are a number of unknowns in addition to the uncertainties over stock levels outlined above and the position will need to be carefully monitored and updated as firmer information becomes available.
- 14.3 As the updated 30 year HRA Business Plan is developed further, the projections for 2009/2010 and 2010/2011 will be 'firmed up'.

15.0 Treasurer's Comments

- 15.1 Proposals set out in this report are based upon our joint best assessment of the likely financial position for 2008/2009. Forecasting is again extremely difficult given the uncertainty caused by movement in stock number, void levels and the impact of introducing heat meters and controls. This makes it difficult to forecast rental income, heating income and HRA Subsidy.
- 15.2 Extensive discussions have taken place about the risks associated with recommending the budget strategy set out above. It is a matter of prudent financial control that the balances in 2008/2009 are adequate to provide a cushion against uncertainty. Proposals over the 2008/2009 and then for 2009/2010 and 2010/2011 to increase balances to a more normative level, nearer to the £750k notional figure, are therefore sensible. Close financial monitoring will however be needed in 2008/2009 given the current projections in this area.
- 15.3 I am satisfied however with the remedial actions proposed, close monitoring in year and the three year forecast predicting more than sufficient balances by March 2011, and a relatively low risk assessment, the HRA can sustain balances below the usually recommended minimum level for the next two years. A deficit balance within the HRA is illegal and the Council will, therefore, have to monitor the financial position very closely over this period.

16.0 Corporate Human Resources Comments

- 16.1 None.

17.0 Legal Services' Comments

- 17.1 It is statutory requirement that the Authority set a balanced HRA budget, having due regard to an appropriate level of working balances and giving due consideration to the risks involved. (BB)

18.0 IT Implications

- 18.1 None.

19.0 Property Implications

- 19.1 None.

20.0 Environmental and Health and Safety Implications

- 20.1 There are none specific at this stage.

21.0 Community Cohesion Implications (Including Crime and Disorder Implications in Accordance with Section 17 of the Act)

- 21.1 Continuation of a robust consultation process open to all tenants and tenants representatives will ensure maximum engagement and provide the opportunity for the views of all groups to be considered in setting the HRA budget and the provision of services to tenants.
- 21.2 The funding the HRA receives from the Subsidy Determination supports the Council in achieving the aims set out in its Housing Strategy.

22.0 Forward Plan Reference

- 22.1 Key Decision – Yes. Plan reference SR-20-07.

23.0 Conclusions

- 23.1 Central Government continues to tightly control the level of Housing Subsidy and the level of the rent increase. This limits the options the Cabinet can examine in balancing the HRA. A financially tighter Subsidy Determination for 2008/2009 and the implementation of the recommendations contained in the three-year review of Rent Restructuring has seen an end to the increased resources of previous years settlements. However prudent financial control in 2008/2009 should allow the Cabinet to make decisions regarding the fulfilment of its Housing Strategy and attainment of the Decent Homes Standard for its housing stock.
- 23.2 Through the procedures set out in the agreed Performance Management Framework regular monitoring of the HRA will take place. This will help ensure that issues arising can be managed effectively. It is proposed that the regular HRA monitoring reports continue to be produced for the Performance and Value For Money Select Committee to keep members apprised. Those reports, for information, will also be presented to the FCHO Board.

The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100D (1) of the Local Government Act 1972. It does not include documents, which would disclose exempt or confidential information as defined by that Act.

Files held in the Director of Finance's Offices

The above papers and documents may be inspected during normal office hours at Room 422, Civic Centre, Oldham (Contact B P Shinn, Tel 0161 911 4976)

HRA Income & Expenditure Account 2007/2008 and 2008/09	Original Budget 2007.2008	Revised Budget 2007.2008	Variance to Budget 2007.2008	Original Budget 2008.2009	Variance Revised 07.08 to Original 2008.09
	A	B	C (B-A)	D	E (D-B)
	£	£	£	£	£
Income					
Dwellings rents (gross)	-37,093,630	-36,628,270	465,360	-38,099,820	-1,471,550
Non-dwelling rents (gross)	-612,180	-652,320	-40,140	-662,240	-9,920
Charges for services and facilities	-2,286,810	-2,279,200	7,610	-2,330,270	-51,070
Contributions towards expenditure	-7,421,160	-7,944,860	-523,700	-7,561,720	383,140
Housing Revenue Account Subsidy:					
Housing Element	-1,016,170	-1,485,740	-469,570	326,090	1,811,830
PFI Credits	-9,899,490	-9,899,490	0	-9,899,490	0
Major Repairs Allowance	-8,144,660	-8,223,420	-78,760	-8,108,450	114,970
Rental Constraint Allowance	-762,220	-754,440	7,780	0	754,440
Total Income	-67,236,320	-67,867,740	-631,420	-66,335,900	1,531,840
Expenditure					
First Choice Homes Management Fee	24,147,490	24,162,480	14,990	23,785,040	-377,440
PFI 2 Allowances	12,607,720	12,910,700	302,980	13,021,480	110,780
Rent, rates and other charges	6,259,660	6,626,960	367,300	6,519,900	-107,060
Depreciation and impairment of fixed assets	12,235,690	12,314,450	78,760	12,199,480	-114,970
Debt management costs	144,390	145,000	610	145,000	0
Increased provision for bad or doubtful debts	370,940	358,530	-12,410	385,200	26,670
Total Expenditure	55,765,890	56,518,120	752,230	56,056,100	-462,020
Net Cost of HRA Services per I & E Account	-11,470,430	-11,349,620	120,810	-10,279,800	1,069,820
HRA share of Corporate and Democratic Core	671,320	821,540	150,220	846,190	24,650
Net Cost of HRA Services	-10,799,110	-10,528,080	271,030	-9,433,610	1,094,470
Interest payable and other similar charges	13,276,000	11,887,460	-1,388,540	11,835,100	-52,360
Amortisation of Premiums and Discounts	311,210	1,601,490	1,290,280	1,584,300	-17,190
Interest and Investment Income	-41,250	-64,780	-23,530	-40,080	24,700
-Surplus/Deficit for the year on HRA Services	2,746,850	2,896,090	149,240	3,945,710	1,049,620

Statement of Movement on HRA Balance	Original Budget 2007.2008	Revised Budget 2007.2008	Variance to Budget 2007.2008	Original Budget 2008.2009	Variance Revised 07.08 to Original 2008.09
	A	B	C (B-A)	D	E (D-B)
	£	£	£	£	£
-Surplus/Deficit for the year on HRA Services	2,746,850	2,896,090	149,240	3,945,710	1,049,620
Net additional amount required by statute	-3,469,330	-3,119,900	349,430	-3,016,710	103,190
-Increase/Decrease in the HRA Balance	-722,480	-223,810	498,670	929,000	1,152,810
HRA Balance brought forward	-227,600	-939,720	-712,120	-1,163,530	-223,810
HRA Balance carried forward	-950,080	-1,163,530	-213,450	-234,530	929,000

Note to Statement of Movement on HRA Balance	Original Budget 2007.2008	Revised Budget 2007.2008	Variance to Budget 2007.2008	Original Budget 2008.2009	Variance Revised 07.08 to Original 2008.09
	A	B	C (B-A)	D	E (D-B)
	£	£	£	£	£
Items included in HRA I & E account but excluded from the movement on HRA balance for the year					
Differences in accordance with SORP (impairment)	-4,091,030	-4,091,030	0	-4,091,030	0
Government Grants Deferred	0	0	0	0	0
	-4,091,030	-4,091,030	0	-4,091,030	0
Items not included in HRA I & E account but included in the movement on HRA balance for the year					
HRA contributions to Minimum Revenue Provision	0	52,330	52,330	158,320	105,990
Revenue contribution to capital expenditure	621,700	918,800	297,100	916,000	-2,800
	621,700	971,130	349,430	1,074,320	103,190
Net additional amount required by statute	-3,469,330	-3,119,900	349,430	-3,016,710	103,190

HOUSING REVENUE ACCOUNT
CALCULATION OF FCHO MANAGEMENT FEE

	Property Numbers	Property Allowance	Fee
2007/2008			
Original Management Fee:			
Property Based	13,030	£1,843.52	£24,021,010
Energy Costs ~ PFI2 properties			£222,320
Recharged Borrowing Costs			-£95,850
			£24,147,480
Adjustments made in year:			
Additional costs ~ PFI2 properties			£15,000
Revised Management Fee			£24,162,480
Increases allowed in 2008/2009:			
Property based charges	0.76%	based on Subsidy M&M Allowances	
Energy Costs ~ PFI2 properties	5.00%	energy inflation	
Additional costs ~ PFI2 properties	3.00%	general inflation	
2008/2009			
Original Management Fee:			
Property Based	12,746	£1,857.51	£23,675,782
Energy Costs ~ PFI2 properties			£233,436
Recharged Borrowing Costs			-£95,850
Additional costs ~ PFI2 properties			£15,450
TV Aerial Maintenance savings (as new systems are introduced)			-£43,775
			£23,785,043

Budget Movements ~ Revised 2007/2008 to Original 2008/2009**Better (-) / Worse**

£

Rental Income

Impact of 7.39% rent increase from April 2008	-2,480,239
Impact of 1 less rent week in 2008/2009	794,976
Impact of sales during 2008/2009	213,713
	-1,471,550

Charges for services and facilities

Impact of 5% rent increase from April 2008	-64,840
Impact of 1 less rent week in 2008/2009	27,790
Other minor (net) increases in income	-14,020
	-51,070

Contributions towards expenditure

Withdrawal of Asylum Seekers Induction contract	370,060
Other minor (net) reductions in income	13,080
	383,140

HRA Subsidy (Housing Element)

Guideline Rent	1,254,900
Management Allowance	129,550
Maintenance Allowance	218,500
Capital Financing Charges	208,880
	1,811,830

HRA Subsidy (RCA)

Rental Constraint Allowance no longer receivable	754,440
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FCHO Fee

As detailed in Appendix B	-377,440
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PFI Allowances

Inflationary increases	168,840
Reduced allowance based on lower property numbers	-58,060
	110,780

Rent, rates and other charges

Cost savings due to withdrawal of Asylum Seekers Induction contract	-140,000
Other minor (net) increases in costs	32,940
	-107,060

Minimum Revenue Provision

Prudential Borrowing costs repaid	105,990
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£

Revenue Contribution to Capital Expenditure

Completion of Sx3 implementation in 2007/2008	-307,000
Completion of legionella surveys in 2007/2008	-84,300
PFI4 ~ reduced budgetary requirement in 2008/2009	-92,500
Commission of Stock Condition Survey etc in 2008/2009	481,000
	-2,800

Other Minor Variances

Non-dwelling rents	-9,920
HRA Subsidy (MRA)	114,970
Depreciation and impairment of fixed assets	-114,970
Increased provision for bad or doubtful debts	26,670
HRA share of Corporate and Democratic Core	24,650
Interest payable and other similar charges	-52,360
Amortisation of Premiums and Discounts	-17,190
Interest and Investment Income	24,700
	-3,450

Change in HRA balances for year**1,152,810**

RISK ASSESSMENT

No.	Year	Risk Event	Likelihood of Happening Low = 0% - 25% Medium = 26% - 50% High = 51% - 100%	Potential Net Financial Impact £'000	Reserve Requirement		
					2008/09 £'000	2009/10 £'000	2010/11 £'000
1	08/09	<u>Stock loss exceeds estimate (by 100 properties)</u>	Low – 10%	138	14		
	09/10		Medium ~ 30%	149		45	
	10/11		High – 70%	160			112
2	08/09	Void levels exceeds estimate (additional 1%)	Low – 10%	397	40		
	09/10		Medium ~ 30%	417		125	
	10/11		High – 70%	438			307
3	08/09	Review of service charges for tenants and leaseholders	Low – 10%	0	0		
	09/10		Low – 10%	0		0	
	10/11		Low – 10%	0			0
4	08/09	Additional requirements arising pre- Housing Inspection	Low – 10%	0	0		
	09/10		Low – 10%	0		0	
	10/11		Low – 10%	0			0
5	08/09	HRA budget pressure arising from unforeseen FCHO budget problems	Low – 10%	0	0		
	09/10		Low – 10%	0		0	
	10/11		Low – 10%	0			0

RISK ASSESSMENT (Cont'd)

No.	Year	Risk Event	Likelihood of Happening Low = 0% - 25% Medium = 26% - 50% High = 51% - 100%	Potential Net Financial Impact £'000	Reserve Requirement		
					2008/09 £'000	2009/10 £'000	2010/11 £'000
6	08/09	Impact of changes in rental income collections rates	Low – 10%	390	39		
	09/10		Medium ~ 30%	428		128	
	10/11		High – 70%	459			321
7	08/09	Effect of HMRF programmes on HRA budget	Low – 10%	250	25		
	09/10		Medium ~ 30%	250		75	
	10/11		High – 70%	0			0
8	08/09	PFI Round 4 ~ Potential of “funding gap” after DCLG appraisal	Medium – 30%	0	0		
	09/10		Medium – 30%	0		0	
	10/11		Medium – 30%	0			0
			TOTALS	3,476	118	373	740

HOUSING REVENUE ACCOUNT

2008/09 – 2010/11 MTFP RISK ASSESSMENT AS AT JANUARY 2008

<u>RISK EVENT/DESCRIPTION</u>	<u>LIKELIHOOD</u>	<u>IMPACT</u>	<u>RESERVE POSITION</u>
1. The level of stock loss in the HRA exceeds the provision made in the estimates.	The budget for 2008/09 has included a provision for the loss of 150 properties. The likelihood of the final figure being different from this is low given the downturn of the RTB “market”.	The loss of a property costs the HRA about £1.6k in a full year. Therefore the loss of a further 100 properties in the year, assuming a spread of loss throughout the year, would cost the HRA about £80k	This would need to be found in year.
2. The void level assumed on dwelling properties increases.	The budget has been set assuming that an average of 5% of the dwelling stock will be void at any one time. There is low likelihood that the final void figure will be higher than that included in the estimates.	A change in the void percentage of 1% (140 properties) has the impact, in a full year, of £390k.	The loss of income arising from movement in void levels would need to be met from reserves to the extent that it could not be found in year.
3. Review of service charges to tenants and leaseholders.	Certain costs should be recharged to tenants and leaseholders. A review is underway to ensure that all appropriate costs are charged in full. It is probable that, previously, there has been an under-recovery of these costs, particularly for central heating.	In the long term it is likely that the impact of the review will be a financial benefit to the HRA. Some central heating costs are, however, unlikely to be recovered as meters and controls are installed.	A provision of £400k has been allowed in the 2008/2009 budget for under-recovery of central heating costs.
4. Financial commitments arising from the Housing Inspection.	There is low risk that there may be additional financial requirements arising from service provision/enhancement pre and post the forthcoming Housing Inspection.	Certain service enhancements/improvements are already provided for. There is a low impact of any further increase in the HRA.	No specific provision for 2008/09. Would be met in year from reserves.

<p>5. HRA budget pressure arising from unforeseen FCHO budget problems.</p>	<p>A significant portion of the HRA budget is delivered through FCHO. The control of this element of the budget is therefore at arms length. Given the financial controls in place in FCHO and in respect of the Management Fee the likelihood of unforeseen pressures is deemed low.</p>	<p>Potential impact low given the likelihood.</p>	<p>No specific provision for 2008/09.</p>
<p>6. Impact of changes in rental income collection rates.</p>	<p>The collection of rental income is a key performance indicator and one in which FCHO has performed at the highest level. It considered a low risk that this collection rate will deteriorate to a level where it has a significant impact on the revenue budget</p>	<p>Rental income is accounted for in the HRA on a rents receivable not received. The impact, considered low, will be an increase in the revenue provision required for bad and doubtful debts due to the increase in tenant's arrears.</p>	<p>A specific bad debts provision is contained within the HRA budget for 2008/09: £390k.</p>
<p>7. Effect of HMRF programmes on the HRA budget.</p>	<p>The 2008/09 budget is calculated based on the effects the current HMRF schemes are anticipated to have on the HRA. It considered a medium risk that the assumptions contained within the budget will change and additional costs and/or stock loss will be incurred.</p>	<p>The impact could be anything in the region up to £500k.</p>	<p>There is no provision in the 2008/09 HRA budget for additional costs incurred under the HMRF schemes. Any additional costs that could not be provided for within the current budget would be a call on the working balance provision.</p>
<p>8. Effect of potential PFI 4 "funding gap" on the HRA budget</p>	<p>The 2008/09 budget is calculated based on the current costs service provision. It is considered a medium risk that the assumption of the DCLG's PFI credit is less than anticipated and additional resources are required from the HRA.</p>	<p>The impact is as yet unknown as it is dependant on the DCLG's announcement of the PFI credit awarded to support the project.</p>	<p>This would need to be found from the HRA over the life of the contract.</p>

Appendix F

<u>HRA Income & Expenditure Account 2009/10 and 2010/11</u>	Original Budget 2009.2010	Original Budget 2010.2011
	£	£
Income		
Dwellings rents (gross)	-40,209,320	-42,335,490
Non-dwelling rents (gross)	-686,420	-711,590
Charges for services and facilities	-2,436,400	-2,551,670
Contributions towards expenditure	-7,684,610	-7,810,580
Housing Revenue Account Subsidy:		
PFI Credits	-18,439,110	-20,147,030
Major Repairs Allowance	-7,811,980	-7,875,180
Total Income	-77,267,840	-81,431,540
Expenditure		
First Choice Homes Management Fee	23,181,310	22,956,680
PFI 2 & PFI 4 Allowances	22,265,830	24,249,750
Rent, rates and other charges	6,652,360	6,788,540
Housing Revenue Account Subsidy:		
Housing Element	1,964,510	4,380,430
Depreciation and impairment of fixed assets	11,903,010	11,966,210
Debt management costs	145,000	145,000
Increased provision for bad or doubtful debts	411,980	440,070
Total Expenditure	66,524,000	70,926,680
Net Cost of HRA Services per I & E Account	-10,743,840	-10,504,860
HRA share of Corporate and Democratic Core	871,570	897,720
Net Cost of HRA Services	-9,872,270	-9,607,140
Interest payable and other similar charges	11,948,580	11,816,270
Amortisation of Premiums and Discounts	1,455,610	954,710
Interest and Investment Income	-3,500	-25,000
-Surplus/Deficit for the year on HRA Services	3,528,420	3,138,840

<u>Statement of Movement on HRA Balance</u>	Original Budget 2009.2010	Original Budget 2010.2011
	£	£
-Surplus/Deficit for the year on HRA Services	3,528,420	3,138,840
Net additional amount required by statute	-3,670,130	-3,887,700
-Increase/Decrease in the HRA Balance	-141,710	-748,860
HRA Balance brought forward	-234,530	-376,240
HRA Balance carried forward	-376,240	-1,125,100

Appendix F

<u>Note to Statement of Movement on HRA Balance</u>	Original Budget 2009.2010	Original Budget 2010.2011
	£	£
Items included in HRA I & E account but excluded from the movement on HRA balance for the year		
Differences in accordance with SORP (impairment)	-4,091,030	-4,091,030
Government Grants Deferred	0	0
	-4,091,030	-4,091,030
Items not included in HRA I & E account but included in the movement on HRA balance for the year		
Transfer to / from (-) Major Repairs Reserve	0	0
HRA contributions to Minimum Revenue Provision	191,900	203,330
Revenue contribution to capital expenditure	229,000	0
	420,900	203,330
Net additional amount required by statute	-3,670,130	-3,887,700