



CABINET – 6 FEBRUARY 2002

PORTFOLIO: HOUSING

HOUSING REVENUE ACCOUNT ESTIMATES 2002/03

1. INTRODUCTION

- 1.1 The draft Housing Revenue Account (HRA) estimates and supporting information are submitted for consideration with this report, and are contained in the attached appendices.
- 1.2 Cabinet is asked to consider the estimates, which will eventually be submitted to Council on 25 February 2002.
- 1.3 At some time before the meeting, Members may find it helpful to raise any matters of detail, with Kevin Green on (023) 8028 5715 or Sharon Coles on (023) 8028 5713.

2. KEY ISSUES

- 2.1 In the report, Members are asked to consider a number of financial issues for 2002/03. The report:-
 - Recommends an average rent increase of 3.1% for 2002/03, which would increase the average rent by £1.82 to £60.29 per week.
 - Recommends that sheltered housing service charges are increased by 3.9%.
 - Recommends that hostel accommodation service charges are increased by 3%.
 - Recommends a 10p per week increase in garage rents, which is equivalent to 2.4%.
 - Details the housing subsidy arrangements set by the Department of Transport, Local Government, and the Regions (DTLR) for 2002/03, including the continuing restriction on subsidy towards rent rebates.
 - Recommends £500,000 revenue financing to fund environmental enhancements capital expenditure.
- 2.2 On 5 December 2001, Cabinet approved the adoption of the Government's proposals on rent restructuring. The report identified that rents would increase by an average 3.1% for 2002/3. The proposed

HRA budget, allowing for the identified rent increase, is shown in Appendix A..

3. INCOME 2002/03

- 3.1 Estimated total income for 2002/03 is £208,000 less than was estimated for 2001/02. The major income variations from the 2001/2 approved budget are set out below but a full analysis of variations is included in Appendix B.

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	£'000	Paragraph
	249	3.2
Dwelling Rents		
Garage Rents	19	3.3
Service Charges	21	3.4
Housing Subsidy	-698	3.5
Rent Rebates Subsidy	197	3.6
Major Repairs Allowance	66	3.7
Subsidy		
Mortgage Interest	-27	3.8
Balances Interest	-40	3.9
Other	5	
	<u>-208</u>	

- 3.2 **Dwelling Rents** – The average rent increase of 3.1% would have generated additional income of £503,000. However, due to the sale of dwellings under the Right to Buy scheme, the overall increase is reduced by £254,000 to £249,000.
- 3.3 **Garage Rents** – The 2002/03 estimates include provision for an increase in charges of 10p per week. This is equivalent to a 2.4% increase and will raise the charge to £4.30 per week. Garages let to non-council tenants are subject to VAT, in addition to the rent charged. The increased charges will generate additional income of £10,000. In addition, a further £9,000 is anticipated due to a reduction in the number of voids.
- 3.4 **Charges For Services And Facilities** - In accordance with current policy, service charges for hostels and sheltered housing are levied to meet the cost of all services provided, which are over and above the basic housing provision. The charge is normally set at a level to meet the full cost of services provided so that no subsidy is made from the Housing Revenue Account. Where relevant, the service charge will also cover recovery of Council Tax payments made by the Authority. Based upon the current policy, service charges on hostel accommodation would need to be increased by 3% and charges for sheltered housing would need to increase by 3.9%.

3.5 **Housing Subsidy** – Housing subsidy is a negative income element and is netted off the Rent Rebate subsidy receipt. For 2002/3 the negative element has increased by £698,000 due to the following:

	£'000	
Reduction in Stock numbers	215	
Increase In Guideline Rent	-707	
Increase In Management and Maintenance Allowances	99	
Capital Financing - Interest Rate Increase	47	*
- Interest Payment Reduction	-316	*
- Principal Repayment reduction	-75	*
- Premature Repayment Premium	75	*
Mortgage Interest	22	*
Tenants Compact and Resource Accounting	-58	*
	<u>-698</u>	

The items asterisked in the above table are largely matched by compensating adjustments to other income or expenditure budgets and therefore have little effect on rent levels. The non-asterisked items however, over which the Council has no control, total a reduction in subsidy of £393,000.

3.6 **Rent Rebate Subsidy** – Total Rent Rebate Subsidy has increased by £197,000. This is comprised of a £288,000 increase because of the proposed rent level, offset by a reduction of £91,000, principally due to a reduced caseload.

In 1996/97, the Government introduced financial controls whereby any rent increases in excess of the guideline rent do not attract rent rebate subsidy. A comparison of guideline rent increases with actual rent increases is given below:-

	Limit	Actual
	%	%
1996/97	1.4	5
1997/98	0.9	0.9
1998/99	1.4	1
1999/00	1.8	4
2000/01	3.5	7
2001/02	4.4	3.5
2002/03	4	3.1 (Proposed)

At the proposed increase level of 3.1%, the differential would be £621,000 and the Council's average rent of £60.29 per week would exceed the Government's limit rent by £4.32 (7.7%).

- 3.7 **Major Repairs Allowance Subsidy** – The MRA per dwelling has increased by 4.3% to £582.37. This would have generated additional income of £133,000 but the additional amount to be received is reduced by £67,000 to £66,000, following a reduction in stock numbers. Total MRA subsidy will be £3.157m.
- 3.8 **Mortgage Interest** – During 2001/2, the Council transferred a number of its mortgages to a private sector organisation, which resulted in a significant capital receipt. The interest lost following the transfer is £27,000 but this is largely matched by an increase in housing subsidy, as noted in paragraph 3.5.
- 3.9 **Balances Interest** – Due to the time involved in recruiting employees and setting up works contracts, it will not be possible to spend all the Major Repairs Allowance funding available in 2002/03. The unspent balance, which is held in a Major Repairs Reserve for use in future years, generates interest. This, together with the balance on the HRA will generate estimated interest of £139,000, which is a reduction of £40,000 from the 2001/02 estimates.

4. EXPENDITURE 2002/03

- 4.1 Estimated total expenditure for 2002/03 is £371,000 greater than was estimated for 2001/02. The major expenditure variations from the 2001/02 approved budget are set out below but a full analysis of variations is included in Appendix B.

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	£'000	Paragraph
	965	4.2
Inflation		
Major Repairs Allowance	-67	4.3
Supervision and Management	-84	4.4
Rent Rebates	-89	4.5
Capital Financing Costs	-354	4.6
	371	

- 4.2 **Inflation** – The budget increase due to inflation on expenditure headings is £965,000. This includes an increase of £217,000 in the cost of Reactive Maintenance, as considered by this Panel on 23 January 2002 and £93,000 in the cost of Grounds Maintenance, which is being considered by Cabinet on 6 February 2002.
- 4.3 **Major Repairs Allowance** – The MRA expenditure heading represents the contribution from the HRA to the Major Repairs Reserve, from

where the repair works will be funded. Each year, the contribution matches the sum receivable in MRA subsidy. After adjusting for inflation, MRA subsidy has decreased by £67,000, as a result of a reduction in stock numbers due to Right to Buy Sales. The total contribution for 2002/03 is £3.157m.

- 4.4 **Supervision and Management** – After adjusting for inflation, the 2002/03 estimates show a reduction of £84,000 from the original 2001/02 estimates. The variation is detailed in the following table:

	£'000
Housing Contract	-57
Premises Insurance	17
Resource Accounting	-39
Barfields Improvements	-22
Changes in Allocations	19
Other	-2
	<hr style="width: 100%; border: 0.5px solid black;"/> -84 <hr style="width: 100%; border: 0.5px solid black;"/>

- 4.5 **Rent Rebates** - After allowing for the implication of the proposed rent increase, rent rebate expenditure is anticipated to reduce by £89,000 from the original 2001/02 estimate. This is due to a continuing reduction in caseload but is more than offset by reduced rent rebate subsidy (see paragraph 3.6).

- 4.6 **Capital financing costs** – These costs are a prescribed calculation set by the DTLR. They are largely offset by Housing Subsidy (see Paragraph 3.5), although due to the subsidy simplifications introduced in 1996/97, there is now a timing differential between expenditure charged to the HRA and subsidy being receivable.

The reduction of £354,000 is analysed as follows:-

	£'000
Interest Rate Decrease	33
Principal Repayment Reduction	-87
Interest Repayment Reduction	-374
Premature Repayment Premium	75
Debt Management Expenses	-1
	<hr style="width: 100%; border: 0.5px solid black;"/> -354 <hr style="width: 100%; border: 0.5px solid black;"/>

- 4.7 **Additional Contribution to Major Repairs** – It is the Government's assumption that the level of MRA subsidy is sufficient to enable Authorities to maintain their stock at current conditions. However, any

backlog repairs need to be funded from Credit Approvals or other in-house resources. As this Authority's capital programme priorities do not currently allocate any capital resources to the Housing Stock, all backlog repairs need to be funded from the HRA. It is therefore proposed to maintain the additional contribution at the 2001/02 level plus inflation.

The anticipated position of the Major Repairs Reserve is as follows:

	2001/02	2002/03
	£'000	£'000
Opening balance	-	1,702
Basic Contribution (MRA)	3,091	3,157
Additional Contribution	1,911	1,960
Total Available	5,002	6,819
Expenditure	-3,300	-5,258
Balance carried forward	1,702	1,561

- 4.8 **Capital Expenditure Charged to Revenue** – The budgetary control report, elsewhere on this agenda, highlights slippage of £130,000 in the Environmental Enhancements budget. It is proposed to allocate an additional £370,000 for such works in 2002/3, making an overall 2002/03 budget of £500,000. This is consistent with the level of resources originally allocated for 2001/2, and will result in a manageable programme for the surveyors.

5. HRA BALANCES

- 5.1 The 2002/03 estimates show a deficit budget of £876,000, which will reduce the anticipated HRA balance at 31 March 2003 to £1.433 million. The District Auditor has historically suggested that £750,000 is a prudent balances level. Due principally to the implications of rent restructuring and further dwelling sales, the annual deficit will increase in future years. Clearly, once the prudent level of balances is reached, expenditure levels will need to be reviewed. As detailed in the rent restructuring report, this is likely to lead to reductions in the Additional Contribution to Major Repairs and Environmental Enhancements budgets.

6. TENANTS' COMMENTS

6.1 Tenants considered this report on 28 January 2002. Their comments will be reported orally at the Panel meeting.

7. CRIME AND DISORDER IMPLICATIONS

7.1 There are no crime and disorder implications arising directly from this report.

8. ENVIRONMENTAL IMPLICATIONS

8.1 There are no environmental implications arising directly from this report.

9. RECOMMENDATIONS

9.1 Members are requested to consider the estimates and recommend the following to Council :-

- (a) That the HRA budget, as set out in Appendix A, be approved.
- (b) That a revenue contribution of £0.50m from the HRA to fund environmental enhancements be made in 2002/03.
- (c) That the overall level of the HRA estimates for 2002/03 and consequential increases in charges of:-
 - 3.1% (average) in rents for Council dwellings; in line with the rent restructuring guidelines
 - 3.9% in service charges for sheltered housing schemes and recovery of Council Tax, in accordance with current policy
 - 3% in service charges for hostels for homeless households and recovery of Council Tax, in accordance with current policy
 - 10p per week in garage rents (plus VAT for garages let to non-council tenants)

be approved to take effect from 1 April 2002.

- (d) That the service of the appropriate notices be authorised.

Further Information:

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Background Papers:

Rent Restructuring (Report B)
21 November 2001

Or

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HOUSING PORTFOLIO REVENUE ESTIMATES
HOUSING REVENUE ACCOUNT

	2000/01 ACTUAL	2001/02 ESTIMATE	2002/03 ESTIMATE
	£	£	£
<u>INCOME</u>			
Dwelling Rents	15,976,111	16,234,430	16,483,300
Non Dwelling Rents			
- Garages	386,631	394,670	413,890
- Land & Buildings	40,571	30,000	30,000
Charges for Services & Facilities	1,049,165	1,078,670	1,100,340
Contributions towards Expenditure	234,602	235,280	238,390
Government Subsidies			
- Housing Subsidy	-5,853,958	-6,672,400	-7,370,000
- Rent Rebates	8,871,117	9,281,800	9,478,720
- Major Repairs Allowance	-	3,091,150	3,156,810
Housing Benefit Transfers	64,900	69,790	60,000
Interest Receivable			
- Mortgage Interest	42,270	35,800	8,910
- Balances Interest	138,711	179,420	139,020
Other			
- Sales Administration Recharge	98,834	112,670	102,570
- Shared Amenities Contribution	86,205	84,000	105,000
	21,135,159	24,155,280	23,946,950
<u>EXPENDITURE</u>			
Repairs & Maintenance			
- Major Repairs Allowance	-	3,091,000	3,156,810
- Additional Contribution to Major Repairs	-	1,911,000	1,960,000
- Capital Expenditure Charged to Revenue	458,382	500,000	500,000
- Planned / Cyclical	2,609,961	722,000	740,000
- Disabled Facilities	304,621	328,000	336,000
- Reactive	2,147,881	2,172,000	2,389,000
Supervision & Management			
- General Management	2,698,908	2,934,720	2,968,690
- Special Services	878,490	897,620	1,023,896
- Homeless Assistance	55,757	71,720	71,410
- Sale of Council Houses	100,382	113,540	103,520
Rents, Rates, Taxes and Other Charges	21,860	22,490	23,714
Rent Rebates - General	9,525,606	9,874,440	10,100,660
- Local Scheme	64,900	69,790	60,000
Provision for Bad Debt	28,498	30,000	30,000
Capital Financing Costs	2,094,956	1,713,760	1,359,510
	20,990,202	24,452,080	24,823,210
Change in Reserve Balance	144,957	-296,800	-876,260
Balance as at 31 March	2,466,082	2,169,315	1,432,740

HOUSING REVENUE ACCOUNT - BUDGET VARIATIONS**ORIGINAL 2001/02 - ORIGINAL 2002/03**

	2001/02 ORIGINAL ESTIMATE £'000	ANALYSIS OF CHANGE		2002/03 ORIGINAL ESTIMATE £'000
		INFLATN. £'000	OTHER £'000	
<u>INCOME</u>				
Dwelling Rents	16,234	503	-254	16,483
Non Dwelling Rents				
- Garages	395	10	9	414
- Land & Buildings	30			30
Charges for Services & Facilities	1,079	42	-21	1,100
Contributions towards Expenditure	235	5	-2	238
Government Subsidies				
- Housing Subsidy	-6,672		-698	-7,370
- Rent Rebates	9,282	288	-91	9,479
- Major Repairs Allowance	3,091	133	-67	3,157
Housing Benefit Transfers	70		-10	60
Interest Receivable				
- Mortgage Interest	36		-27	9
- Balances Interest	179		-40	139
Other				
- Sales Administration Recharge	112	5	-14	103
- Shared Amenities Contribution	84	21		105
	24,155	1,007	-1,215	23,947
<u>EXPENDITURE</u>				
Repairs & Maintenance				
- Major Repairs Allowance	3,091	133	-67	3,157
- Additional Contribution to Major Repairs	1,911	49		1,960
- Capital Expenditure Charged to Revenue	500			500
- Planned / Cyclical	722	18		740
- Disabled Facilities	328	8		336
- Reactive	2,172	217		2,389
Supervision & Management				
- General Management	2,935	112	-78	2,969
- Special Services	898	115	11	1,024
- Homeless Assistance	72	1	-2	71
- Sale of Council Houses	113	5	-15	103
Rents, Rates, Taxes and Other Charges	22	1		23
Rent Rebates				
- General	9,874	306	-79	10,101
- Local Scheme	70		-10	60
Provision for Bad Debt	30			30
Capital Financing Costs	1,714		-354	1,360
	24,452	965	-594	24,823
Change in Reserve Balance	-297	42	-621	-876