



CABINET - 6 JANUARY 2003

HOUSING REVENUE ACCOUNT ESTIMATES 2003/04

1. INTRODUCTION

- 1.1 The Office of the Deputy Prime Minister has issued the Consultation Subsidy Determination for the Housing Revenue Account at the beginning of December.
- 1.2 This report sets out the anticipated impact of the draft 2003/04 Subsidy Determination on the Council's 2003/04 HRA estimates and on the Council's 10 year Business Plan projection for the HRA, which was approved by Cabinet on 8 July 2002.
- 1.3 Whilst the figures are subject to small variations, subject to agreement of expenditure plans and final cost allocations from internal business units, it is unlikely that the amounts shown in this report will change substantially, unless the Government makes significant changes to its subsidy proposals.
- 1.4 An indicative HRA estimate for 2003/04 is included in **Appendix A**, with 2002/03 figures shown for comparison. **Appendix B** shows a revised 5 year forecast of HRA income and expenditure.

2. KEY ISSUES

- 2.1 In the report, Cabinet is asked to consider a number of financial issues for 2003/04. The report:-
 - Recommends an average rent increase of 2.85% for 2003/04, which would increase the average rent by £1.62 from £60.29 to £61.91 per week. This is in line with the adoption of the Government's proposals on rent restructuring, as approved by Cabinet on 5 December 2001 and reflects the policy adopted in the Council's 10 year HRA business plan, which was approved by Cabinet on 8 July 2002.
 - Recommends that service charges are set with the principal aim of recovering costs. For hostels the difference between costs and current income would require an increase of approximately 9% to service charges in order to recover all costs. It is proposed that this increase is phased over a 2 year period, with a **5%** increase in this year. This will reduce the income shortfall from £2.5k in 2002/03 to £1.5k in 2003/04 and eliminate it fully in 2004/05. A service charge increase of **2.5%** for sheltered housing is estimated to achieve recovery of costs.
 - Recommends a 10p per week increase in garage rents, which is equivalent to 2.3%.

- Details the housing subsidy arrangements set by the Office of the Deputy Prime Minister (ODPM) for 2003/04, including the continuing restriction on subsidy towards rent rebates.
- Asks Cabinet to confirm that the revenue financing of environmental enhancements capital expenditure is terminated in accordance with the 10 year plan and that additional contributions to major repairs and backlog maintenance is reduced in accordance with the previously approved HRA business plan.
- This report and the HRA budget will be discussed with HRA tenants in January. Tenants may press for money to be spent on environmental enhancements. Cabinet may want to consider using some of the forecast surplus balance (see section 6 of this report) to fund environmental enhancement expenditure.

2.2 The 2003/04 Budget preparation process has highlighted some additional spending needs and potential savings. These are detailed in section 5 and Cabinet is asked to consider and approve the proposals for inclusion in the final 2003/04 estimate.

2.3 It is proposed that the indicative 2003/04 HRA estimate contained in this report will be revised in due course to reflect final Government proposals concerning subsidy, the outcome of the 2003/04 Expenditure Plan process, detailed business unit allocations and any change in HRA policy determined by Cabinet. The updated 2003/04 estimate would then be made available for consideration at the next Cabinet meeting prior to its approval by Council.

3. INCOME 2003/04

3.1 Estimated total income for 2003/04 is £0.711m less than was estimated for 2002/03. The major income variations from the 2002/03 approved budget are set out below:

	£'000	Paragraph
Dwelling Rents	139	3.2
Housing Subsidy	-935	3.3
Rent Rebates Subsidy	34	3.4
Major Repairs Allowance (Subsidy)	57	3.5
Balances Interest	-44	3.6
Other	38	
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	-711	

- 3.2 **Dwelling Rents** – The income budget reflects the proposed rent increase of 2.85% offset by the implications of rent loss from the reduction in dwelling numbers, as a result of ‘Right to Buy’.
- 3.3 **Housing Subsidy** - A number of factors are contributing to the reduction in Housing Subsidy, as shown in the table below. All major items contributing to this loss in subsidy are explained separately in the notes below the table:

	£'000
Guideline Rent	-396
Capital Financing	-488
Management + Maintenance	-58
Others	7
	<u>-935</u>

Guideline Rent (-£396k)

The Government’s rent restructuring policy involves increases in guideline rents. For 2003/04 an increase of £2.42 (4.7%) to £54.09 results in reduced subsidy of £396k. This withdrawal of subsidy will continue each year until the guideline rent and actual rents charged by the Council have converged with the formula rent level (currently £60.16).

Capital Financing (-£488k)

This reduction in ‘Housing Subsidy’ is based on the Government’s assumption of an authority’s capital financing costs. As a result of ‘Right To Buy’ and the amount of the receipts that have to be set aside for the repayment of borrowing, the amount reduces from year to year. The negative effect on ‘Housing Subsidy’ is however closely matched by a similar reduction in actual capital financing costs (see section 4.1).

Maintenance and Management (-£58k)

The following factors are responsible for the overall net loss of £58k of funding:

- Maintenance Allowance:
Increase: £13.28*5,421dwellings = **£72k**
- Management Allowance:
Decrease: £7.14*5,421dwellings = **-£38k**
- Effect of reduction in dwelling number:
Decrease: £920.30*100dwellings = **-£92k**

Both the increase of £13.28 (2.38%) per dwelling in maintenance allowances and the reduction of £7.14 (-2%) per dwelling in management allowances leave New Forest substantially worse off than the proposed national increases of 8.1% for the target management

allowance and 5.7% for the target maintenance allowance. The loss in subsidy in respect of management allowances is anticipated to continue for the next few years, until the subsidy paid has reduced to the level of the target maintenance allowance.

- 3.4 **Rent Rebates Subsidy** – Despite rent rebate expenditure reducing, through a lower caseload, rent rebate subsidy has increased. This is due to a reduction in the penalty from actual rents exceeding the limit rent used for subsidy purposes. This is in line with the Government’s rent restructuring policy.
- 3.5 **Major Repairs Allowance (Subsidy)** – The increased subsidy income is matched by increased expenditure on major repairs.
- 3.6 **Balances Interest** – This is reducing as a result of reduced interest rates and a reduction in the HRA balance and the MRA fund (the latter will be reduced to £0 by the end of 2003/04).

4. **EXPENDITURE 2003/04**

- 4.1 Estimated total expenditure for 2003/04 is £2.251m less than the amount budgeted for in 2002/03. The major expenditure variations from the 2002/03 approved budget are set out below:

	£'000
Major Repairs	-1,531
Revenue Contribution to Capital	-500
Other Repairs & Maintenance	204
Rent Rebates	-83
Capital Financing Costs	-469
Other Costs	128
	<u><u>-2,251</u></u>

- 4.2 Whilst the majority of costs are growing in line with inflation, there are a number of significant reductions in expenditure:
- A £1.531 m reduction in major repairs expenditure in accordance with business plan projections.
 - A withdrawal of the £0.5m revenue contribution to the capital programme, which is again in line with the proposals adopted as part of the business plan agreed on 8 July 2002.
 - As a result of ongoing council house sales as part of ‘Right To Buy’ the HRA debt is reducing and this results in a significant reduction in Capital Financing Costs (-£469k).
- 4.3 The planned reduction in expenditure on the items outlined in 4.2 above, in line with the business plan is based on the intention to move to an HRA budget, which is sustainable in the long term. It takes account of

the forecast loss in future Government subsidies. In the short term this will lead to an increase in the HRA balance, which is however reversed in the longer term (see section 6.1). The planned reduction in expenditure allows a managed convergence of income and expenditure towards a balanced budget.

5. HRA EXPENDITURE / SAVINGS PROPOSALS

- 5.1 A number of specific HRA spending needs and savings opportunities have been determined as part of the budget preparation process. The net costs resulting from these amount to £35k. In total this will not have a significant impact on the overall HRA position. Full details of individual items are provided below:

Grounds Maintenance (+£28k)

The cost of the Grounds Maintenance contract adds £3k to the existing budgetary provision. In addition it is proposed to set up a grounds maintenance 'hit-team' for the housing service at a cost of £25k.

Housing Occupational Therapist (+16k)

HCC Social Services are prepared to provide the Council with a Housing Occupational Therapist, who would be based at Lyndhurst, but employed by the HCC Social Services department, subject to us contributing half of the cost of this post, which amounts to £16k.

Central Control (+£11k)

There is insufficient staffing cover at the moment for essential double manning at peak times. To provide the required cover resources of £11k are required.

Housing Systems (+£3k)

The CITRIX Server and UNIX Computer will no longer be covered by guarantee and it is estimated that £6k will be required to cover maintenance costs. The £6k requirement is partly offset by savings in other Housing Systems budgets to the value of £3k.

1.5% Vacancy Factor (-£23k)

A vacancy factor of 1.5% has been introduced for HRA budgets, to bring these into line with General Fund budgets and to bring budgets more closely into line with anticipated expenditure. This will reduce the overall HRA budget by approximately £23k.

- 5.2 Cabinet is asked to consider the above items and to approve their inclusion in the 2003/04 HRA estimate.

6. HRA BALANCES

- 6.1 The 2003/04 estimate shows a surplus budget of £0.664m, which will increase the anticipated HRA balance at 31 March 2004 to £2.373m. The projected 2003/04 surplus is slightly below the projections in the

Council's long term strategy, whilst the overall HRA end of year balance is very close to the long term projection. The table on the following page provides a comparison of the balances anticipated in the Council's HRA business plan and the 2003/04 estimate based forecast:

	Business Plan	2003/04 Estimate
	£m	£m
2003/04	2.263	2.373
2004/05	2.920	3.189
2005/06	2.981	3.570
2006/07	2.398	3.294
2007/08	1.257	2.840

- 6.2 The balance forecast for the end of the 5 year period presented above, shows an improvement over the forecasts made for the long term strategy in the past. This is largely due to a revised interpretation of the financial implications once notional debt has been cleared, together with the inclusion of a 53 week rent year in 2004/05. It is however likely that Government will introduce more major changes in the future, including the potential introduction of capital receipts pooling. These changes may have a significant impact on the HRA budget and as a result may require adjustments to forecast balances. The potential future divergence of HRA balances from the strategy or from a prudent level will therefore be closely monitored and reported to Members if material changes are likely.
- 6.3 The improved medium term position reported above could provide the Council with scope to review its reduction in expenditure on major repairs and on contributions to the capital programme. It is however likely that the detailed policy on capital receipts pooling will emerge in detail during 2003/04 and it is suggested that the position is reviewed at that stage. Until then, the Council can use its existing MRA balance of £1.2m in order to balance the reduction in budgeted major repairs expenditure.

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. TENANT PARTICIPATION

- 9.1 Tenants' views will be sought prior to the meeting of the Housing, Health and Social Inclusion Review Panel on 22 January 2003 and will be reported back to Cabinet in February.

10. RECOMMENDATIONS

- 10.1 Cabinet is requested to consider the indicative estimates in this report and to
- (a) Agree the bases for preparation of the final 2003/04 estimate as outlined in this report
 - (b) Suggest the reduction in expenditure outlined in section 4 of the report.
 - (c) Suggest the proposed increases of:-
 - 2.85% (average) in rents for Council dwellings; in line with the rent restructuring guidelines.
 - Service charges in line with the detailed proposals in section 2 (5% for hostels and 2.5% for sheltered housing).
 - 10p per week in garage rents (plus VAT for garages let to non-council tenants).
 - (d) Agree the inclusion of the expenditure and savings proposals outlined in section 5 of this report in the 2003/04 HRA estimate.
 - (e) Agree the reporting process proposed and outlined in paragraph 2.3.

Further Information:

Kevin Green
Accountancy Manager
Tel: 023 8028 5715
E-Mail: kevin.green@nfdc.gov.uk

Or
Alfons Michel
Principal Service Accountant
Tel: 023 8028 5713
E-Mail: alfons.michel@nfdc.gov.uk

Background Papers:

Rent Restructuring (Report B)
21 November 2001

Appendix A

	2002/03 ESTIMATE £'000	2003/04 ESTIMATE £'000	VARIATION £'000
INCOME			
Dwelling Rents	-16,483	-16,622	-139
Non Dwelling Rents			
Garages	-414	-427	-13
Land & Buildings	-30	-31	-1
Charges for Services & Facilities	-1,100	-1,115	-15
Contributions towards Expenditure	-238	-244	-6
Government Subsidies			
Housing Subsidy	7,370	8,305	935
Rent Rebates	-9,479	-9,513	-34
Major Repairs Allowance	-3,157	-3,214	-57
Housing Benefit Transfers	-60	-60	0
Interest Receivable			
Mortgage Interest	-9	-5	4
Balances Interest	-139	-95	44
Other			
Shared Administration Recharge	-103	-107	-4
Shared Amenities Contribution	-105	-108	-3
TOTAL INCOME	-23,947	-23,236	711
EXPENDITURE			
Repairs & Maintenance			
Major Repairs Allowance	3,157	3,214	57
Additional Contribution to Major Repairs	1,960	372	-1,588
Capital Expenditure Charged to Revenue	500	0	-500
Cyclical	740	983	243
Disabled Facilities	336	344	8
Reactive	2,389	2,342	-47
Supervision & Management			
General Management	2,969	3,058	89
Special Services	1,024	1,055	31
Homeless Assistance	71	73	2
Sale of Council Houses	103	108	5
Rents, Rates, Taxes and Other Charges	24	25	1
Rent Rebates			
General	10,101	10,018	-83
Local Scheme	60	60	0
Provision for Bad Debt	30	30	0
Capital Financing Costs	1,359	890	-469
TOTAL EXPENDITURE	24,823	22,572	-2,251
CHANGE IN RESERVE BALANCE	876	-664	-1,540

Appendix B

HRA 5 Year Projection

	2003/04 ESTIMATE £'000	2004/05 ESTIMATE £'000	2005/06 ESTIMATE £'000	2006/07 ESTIMATE £'000	2007/08 ESTIMATE £'000
INCOME					
Rents	-17,080	-17,672	-17,601	-17,857	-18,110
Government Subsidy	-4,422	-4,111	-3,524	-3,023	-2,715
Other Income	-1,734	-1,841	-1,995	-2,001	-2,173
TOTAL INCOME	-23,236	-23,624	-23,120	-22,881	-22,998
EXPENDITURE					
Repairs & Maintenance	7,255	7,237	7,015	6,985	6,959
Supervision & Management	4,294	4,426	4,562	4,701	4,847
Rent Rebates	10,078	10,591	10,716	11,050	11,395
Other Costs	945	554	446	421	251
TOTAL EXPENDITURE	22,572	22,808	22,739	23,157	23,452
CHANGE IN RESERVE BALANCE	-664	-816	-381	276	454
BALANCES AS AT 31 MARCH	-2,373	-3,189	-3,570	-3,294	-2,840