

CABINET – 7 JANUARY 2004

HOUSING REVENUE ACCOUNT ESTIMATES 2004/05

1. INTRODUCTION

- 1.1 The Office of the Deputy Prime Minister has issued the Consultation Subsidy Determination for the Housing Revenue Account for 2004/05
- 1.2 This report sets out the Draft Housing Revenue Account for 2004/05, together with the anticipated impact of the Draft 2004/05 Subsidy Determination on the Council's 2004/05 HRA estimates.
- 1.3 Whilst the figures are subject to small variations, subject to agreement of additional expenditure items and final cost allocations from internal business units, it is unlikely that the amounts shown in this report will change substantially as a result of internal factors. The subsidy determination is however based on a substantially revised Government funding formula. Clarification of the new formula and notification of as yet outstanding information could lead to a revision of the estimates. Outstanding information includes details on an 'Anti Social Behaviour Allowance', where the amount of funding and any conditions of its use have not yet been announced. Any information released and its effects on the 2004/05 estimates will be made available to Members at the earliest opportunity.
- 1.4 An indicative HRA estimate for 2004/05 is included in **Appendix A**, with 2003/04 figures shown for comparison. A revised 5 year forecast of HRA income and expenditure will be made available to Members once final funding details have been announced by Government.

2. KEY ISSUES

- 2.1 In the report, Cabinet is asked to consider a number of financial issues for 2004/05. The report:-
 - Recommends a rent increase in line with the adoption of the Government's proposals on rent restructuring, as approved by Cabinet on 5 December 2001. This reflects the policy adopted in the Council's 10 year HRA business plan, which was approved by Cabinet on 8 July 2002. The effect would be an approximate average increase of 3.61% in rents for 2004/05. This would raise the average rent by £2.24 from £61.92 to £64.16 per week.
 - Recommends that service charges are set with the principal aim of recovering costs. For hostels, service charge income has for some time been below service costs. It is therefore proposed to increase service charges by 4.2%. This is slightly above the increase

proposed for rents and will help to start to reduce the shortfall from approximately £3,000 in 2003/04 to £2,000 in 2004/05. A service charge increase of 3.60% for sheltered housing would ensure that service charges would recover costs in line with the Council's policy.

- Recommends garage rent increases of 20p per week. In the past few years garage rent increases have always been set at 10p per week, in order to create a sensible rent amount. In order to ensure that the relationship to general rent levels does not further deteriorate it is recommended to increase garage rents by 20p per week on this occasion (4.5%).
- Details the housing subsidy arrangements set by the Office of the Deputy Prime Minister (ODPM) for 2004/05, including the transfer of rent rebate payments and subsidy to the General Fund.
- This report and the HRA budget will be discussed with HRA tenants on 6 January 2004.

2.2 The 2004/05 Budget preparation process has highlighted some additional spending needs. These are detailed in section 5 and Cabinet is asked to consider and approve the inclusion of the proposals in the final 2004/05 estimate.

2.3 It is proposed that the indicative 2004/05 HRA estimates contained in this report will be revised in due course to reflect final detailed business unit allocations and any change in HRA policy determined by Cabinet. The updated 2004/05 estimate would then be made available for consideration at the Cabinet meeting on 4 February prior to its approval by Council.

3. INCOME 2004/05

3.1 Estimated total income for 2004/05 is £9.747m less than was estimated for 2003/04. The major income variations from the 2003/04 approved budget are set out below:

	£'000	Paragraph
Dwelling Rents	282	3.2
Housing Subsidy	-481	3.3
Rent Rebates Subsidy	-9,510	3.4
Major Repairs Allowance (Subsidy)	-87	3.5
Balances Interest	30	3.6
Other	19	
	<u>-9,747</u>	

- 3.2 **Dwelling Rents** – The income budget reflects the proposed rent increase of 3.61%, partly 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	-590
Capital Financing	-615
Management + Maintenance	724
	<u>-481</u>

Guideline Rent (-£590k)

The Government’s rent restructuring policy involves increases in guideline rents. For 2004/05 an increase of £3.00 (5.5%) to £57.09 results in reduced subsidy of £590k. 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 £62.65).

Capital Financing (-£615k)

Due to set aside capital receipts, principally from ‘Right To Buy’, the amount of borrowing has been reduced year on year and this results in a reduction of subsidy for the cost of borrowing. This negative effect on ‘Housing Subsidy’ is however largely matched by a reduction in actual capital financing costs (see section 4.1). Set aside will stop in 2004/05 as a result of capital receipts pooling, which will require authorities to pay set aside receipts to the Government.

Maintenance and Management (+£724k)

The following factors are responsible for the overall increase of £724k of funding:

- Maintenance Allowance:
Increase: £142.33*5,245 dwellings = **£747k**
- Management Allowance:
Increase: £9.06*5,245 dwellings = **£48k**
- Effect of reduction in dwelling numbers:
Decrease: £920.22*77 dwellings = **-£71k**

The Government has substantially revised the calculation of management and maintenance allowances and this has resulted in a substantial increase in the allocation to NFDC. Whilst this is positive news, there will be a year on year reduction in the amount received as a result of Right to Buy sales in future years, once inflation is taken into account.

- 3.4 **Rent Rebates Subsidy** – Rent Rebate payments have to be transferred to the General Fund in 2004/05. As a result there will be no more subsidy receipts in the Housing Revenue Account.
- 3.5 **Major Repairs Allowance (Subsidy)** – The subsidy per dwelling has been reduced by £7.66 to £596.20. Total subsidy for 2004/05 is based on 5,245 units, resulting in total subsidy of £3.127m. This is a reduction of £87k from 2003/04, which will be matched by a respective reduction in the expenditure budget.
- 3.6 **Balances Interest** – Balances interest is increasing mainly as a result of the increasing HRA fund balance.

4. EXPENDITURE 2004/05

- 4.1 Estimated total expenditure for 2004/05 is £10.039m less than the amount budgeted for in 2003/04. The major expenditure variations from the 2003/04 approved budget are set out below:

	£'000
Major Repairs	-98
Other Repairs & Maintenance	-40
Rent Rebates	-9,589
Capital Financing Costs	-443
Other Costs including inflation	131
	<u>-10,039</u>

- 4.2 Whilst the majority of costs are growing in line with inflation, there are a number of significant reductions in expenditure:
- A £138k reduction in repairs and maintenance expenditure on major repairs (-£98k) and other repairs and maintenance (-£40k), in accordance with business plan projections, reflecting a reduction in stock numbers, and the reduced Major Repairs Allowance (see 3.1 and 3.5 above).
 - As a result of the removal of the rent rebates to the General Fund, expenditure will be reduced by £9,589k. As rent rebate subsidy does not fully cover overpayments, nor the full cost of rent rebates until the Council's rent levels are in line with the formula rent (see section 3 above), estimated costs of £488k will still have to be borne by the HRA in 2004/05. This amount is expected to reduce in future years as an increasing portion of the cost of overpayments will have to be borne by the General Fund and rent restructuring will close the formula rent gap.
 - As a result of ongoing council house sales as part of 'Right To Buy', the HRA debt has reduced and this results in a significant reduction in Capital Financing Costs (-£443k). As outlined in 3.3 above set

aside will stop in 2004/05 as a result of capital receipts pooling, which will require authorities to pay set aside receipts to the Government.

5. HRA EXPENDITURE PROPOSALS

- 5.1 A number of specific HRA spending needs have been determined as part of the budget preparation process. The total costs resulting from these amount to £359k. At this stage these have not been included in the draft estimate shown in Appendix A.

Employee Costs (+£19k)

The salaries cost is expected to rise in excess of the amount allowed for salaries inflation, principally as a result of the cost of additional increments and as a result of the fact that a number of posts could only be filled at the top of the scale range.

Housing Systems (+45k)

Additional staffing resources to support the housing IT systems will lead to a rise of expenditure of £23k. This additional resource is necessary to utilise fully the capabilities of the Orchard system and to support the newly installed Document Image processing (DIP) system. Additional ancillary costs include £20k for licences for the DIP system and £2k for additional equipment.

Miscellaneous (+£11k)

A review of existing budgets has revealed that they do not reflect actual expenditure adequately in some areas and there is therefore a need to make adjustments to the following budget heads:

Cleaning Costs	+£4k
Cesspool Contract	+£2k
Utility Costs	+£5k

Premises Insurance (+£34k)

Premises Insurance Costs have risen significantly as a result of a readjustment in the market to new perceptions of risk and the fact that competition for premises insurance has become very limited.

Environmental Enhancements (+£250k)

Investment into environmental enhancements was suspended in 2003/04 due to financial constraints. The anticipated increase in the 2004/05 subsidy, which is to a significant extent due to increased maintenance allowances, will provide the Council with renewed scope to press on with a program of environmental enhancements.

- 5.2 Cabinet is asked to consider the above items and to approve their inclusion in the 2004/05 HRA estimate.

6. HRA BALANCES

- 6.1 The 2004/05 estimate shows a surplus budget of £0.907m, which will increase the anticipated HRA balance at 31 March 2005 to £3.464m. If the expenditure plan items outlined above are included then the 2004/05 surplus budget is reduced to £0.548m and the projected HRA balance at 31 March 2005 to £3.105m. The projected 2004/05 surplus is in either case above previous projections as a result of significant changes to the subsidy funding formula. If the information available to date is confirmed then projected HRA balances are likely to remain higher for longer than previously estimated (if existing expenditure patterns are followed). The additional resources may enable further expenditure to be incurred but it is recommended that no additional budget allocation is made until such time as the medium term business plan is completed. A revised 5 year forecast will be made available to Members as soon as final Government allocations have been announced and formula details have been clarified
- 6.2 A report elsewhere on this agenda considers the Prudential Code. This code has a potential impact on the HRA, depending on the decisions taken to achieve debt free status or to increase or keep current borrowing levels.

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 21 January 2004 and will be reported back to Cabinet in February.

10. PORTFOLIO HOLDER COMMENTS

- 10.1 The Portfolio Holder is pleased to note the financial position of the Housing Revenue Account and welcomes the opportunity to reinstate funding for environmental enhancements.

11. RECOMMENDATIONS

- 11.1 Cabinet is requested to consider the indicative estimates in this report and to:
- (a) Agree the bases for preparation of the final 2004/05 estimate as

outlined in this report

- (b) Recommend the proposed increases of:-
- 3.61% (average) in rents for Council dwellings; in line with the rent restructuring guidelines.
 - Service charges in line with the detailed proposals in section 2 (4.2% for hostels and 3.60% for sheltered housing).
 - 20p per week in garage rents (plus VAT for garages let to non-council tenants).
- (d) Agree the inclusion of the expenditure proposals outlined in section 5 of this report in the 2004/05 HRA estimate.
- (e) Agree the reporting process proposed and outlined in paragraph 2.3.

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Background Papers:

Rent Restructuring (Report B)
21 November 2001

Appendix A

	2003/04 ESTIMATE £'000	2004/05 ESTIMATE £'000
INCOME		
Dwelling Rents	-16,622	-16,904
Non Dwelling Rents		
Garages	-427	-454
Land & Buildings	-31	-40
Charges for Services & Facilities	-1,115	-1,150
Contributions towards Expenditure	-243	-248
Government Subsidies		
Housing Subsidy	8,313	8,794
Rent Rebates	-9,510	0
Major Repairs Allowance	-3,214	-3,127
Housing Benefit Transfers	-60	0
Interest Receivable		
Mortgage Interest	-6	-4
Balances Interest	-81	-111
Other		
Shared Administration Recharge	-107	-107
Shared Amenities Contribution	-109	-114
TOTAL INCOME	-23,212	-13,465
EXPENDITURE		
Repairs & Maintenance		
Major Repairs Allowance	3,214	3,127
Additional Contribution to Major Repairs	372	361
Environmental Enhancements	0	0
Cyclical	983	983
Disabled Facilities	345	353
Reactive	2,342	2,294
Supervision & Management		
General Management	2,447	2,510
Special Services	1,669	1,731
Homeless Assistance	75	75
Sale of Council Houses	105	109
Rents, Rates, Taxes and Other Charges	23	25
Rent Rebates		
General	10,017	488
Local Scheme	60	0
Provision for Bad Debt	30	30
Capital Financing Costs	915	472
TOTAL EXPENDITURE	22,597	12,558
INCREASE IN RESERVE BALANCE	615	907
TOTAL HRA RESERVES AT 31 MARCH	2,557	3,464

Note: Figures exclude expenditure proposals in Section 5 of the report