

CABINET – 5 JANUARY 2005**HOUSING REVENUE ACCOUNT ESTIMATES 2005/06****1. INTRODUCTION**

- 1.1 The Office of the Deputy Prime Minister has issued the Consultation Subsidy Determination for the Housing Revenue Account for 2005/06.
- 1.2 This report sets out the Draft Housing Revenue Account for 2005/06, together with the anticipated impact of the Draft 2005/06 Subsidy Determination on the Council's 2005/06 HRA estimates.
- 1.3 Whilst the figures are subject to small variations, dependent on agreement of additional expenditure proposals 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 these internal factors. It is however important to note that this year's budget preparation is proceeding alongside the Council's stock option appraisal. The outcome of this is due to be reported to Members in February and is expected to necessitate further budget changes, principally concerning repairs & maintenance expenditure.
- 1.4 An indicative HRA estimate for 2005/06 is included in **Appendix A**, with 2004/05 figures shown for comparison. An updated medium term forecast will be prepared as soon as the stock option appraisal reaches its conclusion.

2. KEY ISSUES

- 2.1 Cabinet is asked to consider a number of financial issues for 2005/06. The report: -
 - Identifies the potential 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 3.62% in rents for 2005/06. This would raise the average rent by £2.32 from £64.14 to £66.46 per week.
 - Recommends that service charges are set with the principal aim of recovering costs.

Hostels:

Members have in the past few years accepted increases for service charges below the increase in costs. As a result a gap of approximately £4,000 has developed between costs and service

charge income. Cost pressures for 2005/06 are mainly due to expected rises in utility costs, which make up a significant proportion of costs and are expected to lead to an overall cost increase of 11%. It is proposed to raise service charges by the same percentage. Whilst this will not reduce the current gap, it will ensure that the shortfall will not increase further.

Sheltered Housing:

Cabinet agreed a policy for the restructuring of service charges in sheltered housing on 4 February 2004. The policy adopted entails the phasing in of a revised service charge structure over a minimum period of 3 years, ensuring that the combined rent and service charge payable by any tenant will not vary by more than rent restructuring inflation (3.6%) +/-£2 per week in any year. It is proposed that this formula continues to be applied.

- Recommends garage rent increases of 20p per week. This represents an increase of 4.3% on what is considered a low current rent of £4.60 per week.
- Details the housing subsidy arrangements set by the Office of the Deputy Prime Minister (ODPM) for 2005/06.
- This report and the HRA budget will be discussed with HRA tenants on 4 January 2005.

2.2 The 2005/06 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 2005/06 estimate.

2.3 It is proposed that the indicative 2005/06 HRA estimates contained in this report will be revised in due course to reflect final detailed business unit allocations, any change in HRA policy determined by Cabinet and the outcome of the final housing subsidy announcement by the ODPM. The updated 2005/06 estimate would then be made available for consideration at the Cabinet meeting on 2 February prior to its approval by Council.

3. INCOME 2005/06

3.1 Estimated total income for 2005/06 is £1.115m more than was estimated for 2004/05. The major income variations from the 2004/05 approved budget are set out below:

	£'000	Paragraph
Dwelling Rents + Service Charges	678	3.2
Housing Subsidy	174	3.3
Major Repairs Allowance (Subsidy)	156	3.4
Balances Interest	36	3.5
Other	71	3.6

1,115

- 3.2 **Dwelling Rents / Service Charges** – The income budget reflects the proposed rent and service charge increases set out in section 2.1, 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 income increase due to changes in Housing Subsidy, as shown in the table below. All major items contributing to this are explained separately in the notes below the table:

£'000

Guideline Rent	-626
Capital Financing	208
Management + Maintenance	<u>592</u>
	174

Guideline Rent (-£626k)

The Government’s rent restructuring policy involves increases in guideline rents. For 2005/06 an increase of £3.03 (5.3%) to £60.12 will result in reduced subsidy of £626k. 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 £65.07).

Capital Financing (+£208k)

The increased funding is due to 2 main factors: Assumed increases in interest rates and the notional debt balance feed into an increased Government allocation in lieu of notional borrowing costs (£118k) and the value of redemption premiums payable (which are refunded by the ODPM) has risen by £90k compared to the 2004/05 budget. This latter factor is however balanced by a similar increase in capital financing costs (section 4.1)

Maintenance and Management (+£592k)

The following factors are responsible for the overall increase of £592k of funding:

- Maintenance Allowance:
Increase: £118.97*5,179 dwellings = **£616k**

- Management Allowance:
Increase: £9.03*5,179 dwellings = **£47k**

- Effect of reduction in dwelling numbers:
Decrease: £1,075.56*66 dwellings = **-£71k**

The Government has continued to phase in the revised calculation basis for management and maintenance allowances and this has resulted in a substantial increase in the overall allocation to NFDC. In future years the

picture will however deteriorate as smaller per dwelling increases will be counteracted by losses due to 'right to buy' sales. The effect of this is that cost increases are likely to outstrip income increases unless corrective action is taken.

- 3.4 **Major Repairs Allowance (Subsidy)** – The subsidy per dwelling has been increased by £37.74 to £636.46. Total subsidy for 2005/06 is based on 5,179 units, resulting in total subsidy of £3.296m. This is an increase of £156k from 2004/05, which will be matched by a respective increase in the expenditure budget.
- 3.4 **Balances Interest** – Balances interest is increasing due to the increasing HRA fund balance and improving interest rates.
- 3.5 **Other** – These variations include £10k additional rent income from land and £26k due to additional income generated by Central Control, which has not been adequately reflected in past budgets.

4. EXPENDITURE 2005/06

- 4.1 Estimated total expenditure for 2005/06 is £1.4m higher than the amount budgeted for in 2004/05. The major expenditure variations from the 2004/05 approved budget are set out below:

	£'000 Paragraph	
Major Repairs (MR)	156	4.3
Additional Contribution to MR	1,093	4.3
Capital Expenditure	-250	4.4
Other Repairs & Maintenance	96	4.4
Capital Financing Costs	92	4.5
Other Costs including inflation	<u>213</u>	4.6
	<u>1,400</u>	-

- 4.2 Whilst the majority of costs are growing in line with inflation, there are a number of significant variations:
- 4.3 A £1,249k increase in planned expenditure on major repairs (£156k + £1,093k) reflects the increased Major Repairs Allowance (see 3.4 above), and a provisional allocation of additional funds towards the investment needs which the stock option appraisal is likely to indicate. The conclusions of the stock option appraisal will be reported in February. A full reassessment and determination of repairs and maintenance expenditure needs will have to be undertaken at this stage in order to reflect the outcome.
- 4.4 Whilst other repairs and maintenance expenditure (+£96k) is principally growing in line with inflation, subject to reductions in stock numbers, the capital expenditure on environmental enhancements (-£250k) has been removed from the proposed 2005/06 budget subject to the outcome of the stock option appraisal on the basis that early indications are that the

level of expenditure on dwellings to meet the decent homes standard cannot justify retaining the budget for the time being. A reassessment of all R&M expenditure will take place following the outcome of the stock option appraisal as indicated above, at which stage Members will have another opportunity to determine future spending patterns.

- 4.5 Capital Financing Costs (+£92k) are increasing mainly due to the cost of early debt repayment premiums (+90K). Those costs are however funded through Government subsidy as reflected in section 3.3 above.
- 4.6 The total increase in other costs (+£213k) reflects largely the impact of inflation, additional superannuation costs (+£20k), the introduction of the Council's pay and reward strategy (+£40k) and the expenditure proposal listed in section 5.1 below, offset partly by a cost reduction of £29k due to organisational changes resulting from the retirement of the Assistant Director (Housing Client).

5. HRA EXPENDITURE PROPOSALS

- 5.1 An additional HRA spending need has been determined as part of the budget preparation process. The total cost of £18k resulting from this has been included in the draft estimate shown in Appendix A, subject to Members' approval.

Housing Systems (+18k)

The HRA has in the past year benefited from the installation of a document imaging and document workflow system, which was financed from the IEG (Implementing Electronic Government) grant. Funding of £18k per annum is however required in future to make provision for the replacement and renewal of the system.

- 5.2 Cabinet is asked to consider the above item and to approve its inclusion in the 2005/06 HRA estimate.

6. HRA BALANCES

- 6.1 HRA balances are expected to stand at £3,473,000 at 31 March 2005. Whilst the current surplus projection for 2005/06 stands at £385,000 it is highly likely that this surplus will need to be allocated in order to address any investment needs determined through the stock option appraisal process. It is therefore probable that HRA balances will not continue to rise beyond the level indicated. Any potential need to use accumulated balances in order to address investment needs will be reported to Members at the earliest opportunity.
- 6.2 A medium term HRA budget forecast will be presented to Members following the reporting of the conclusions of the Stock Option Appraisal and the actions determined by the Council to react to those conclusions.

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 19 January 2005 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 2005/06 estimate as outlined in this report
- (b) Recommend the proposed increases of: -
 - Service charges in line with the detailed proposals in section 2
 - 20p per week in garage rents (plus VAT for garages let to non-council tenants).
- (c) Note the current proposed rent increase, but defer recommendations until the final report is submitted in February.
- (d) Agree the inclusion of the expenditure proposal outlined in section 5 of this report in the 2005/06 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

Restructuring Of Service Charges
In Sheltered Housing (Report I)
4 February 2004

Appendix A

	2004/05 ESTIMATE £'000	2005/06 ESTIMATE £'000
INCOME		
Dwelling Rents	-16,884	-17,509
Non Dwelling Rents		
Garages	-454	-475
Land & Buildings	-40	-50
Charges for Services & Facilities	-1,149	-1,202
Contributions towards Expenditure	-248	-281
Government Subsidies		
Housing Subsidy	8,726	8,552
Major Repairs Allowance	-3,140	-3,296
Interest Receivable		
Mortgage Interest	-4	-3
Balances Interest	-112	-148
Other		
Shared Administration Recharge	-113	-117
Shared Amenities Contribution	-114	-118
TOTAL INCOME	-13,532	-14,647
EXPENDITURE		
Repairs & Maintenance		
Major Repairs Allowance	3,140	3,296
Additional Contribution to Major Repairs	361	1,454
Environmental Enhancements	250	0
Cyclical	983	1,009
Disabled Facilities	353	362
Reactive	2,294	2,355
Supervision & Management		
General Management	2,560	2,673
Special Services	1,756	1,891
Homeless Assistance	75	82
Sale of Council Houses	115	113
Rents, Rates, Taxes and Other Charges	25	26
Rent Rebates Cost	448	407
Provision for Bad Debt	30	30
Capital Financing Costs	472	564
TOTAL EXPENDITURE	12,862	14,262
INCREASE IN RESERVE BALANCE	-670	-385
TOTAL HRA RESERVES AT 31 MARCH	3,473	3,858

Note 1: Projection will need to be revised in order to reflect outcome of Stock Option Appraisal.