

CABINET – 4 JANUARY 2006

HOUSING REVENUE ACCOUNT ESTIMATES 2006/07

1. INTRODUCTION

- 1.1 The Office of the Deputy Prime Minister has issued the Consultation Subsidy Determination for the Housing Revenue Account for 2006/07.
- 1.2 This report sets out the Draft Housing Revenue Account for 2006/07 together with the anticipated impact of the Draft 2006/07 Subsidy Determination on the Council's 2006/07 HRA estimates.

The figures are subject to small variations, dependent on final cost allocations from internal business units and may also change if the Government decides to make further changes to the Draft Subsidy Determination following consultation.

- 1.3 An indicative HRA estimate for 2006/07 is included in **Appendix A**, with 2005/06 figures shown for comparison.

2. KEY ISSUES

- 2.1 Cabinet is asked to consider a number of financial issues for 2006/07. 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, following a revision by the Government in the detailed rules, would be an approximate average increase of 4.3% in rents for 2006/07. This would typically raise the average rent by £2.86 to £69.37 per week.
 - Recommends that service charges are set with the principal aim of recovering costs.

Hostels:

In the past few years a gap of approximately £4,000 has developed between costs and service charge income. Cost pressures for 2006/07 are mainly due to substantial rises in utility costs, which make up a significant proportion of costs and are expected to lead to an overall cost increase in excess of 10%. This is significantly in excess of RPI. Whilst still adhering to the goal of cost recovery in the longer term it is proposed that this increase is phased in, in order to reduce the immediate impact on a vulnerable client group, with the increase in this year limited to 5%.

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 (3.2%) +/-£2 per week in any year. The application of this formula has to be undertaken within the overall rent restructuring constraints set by Government and agreement on increases with Hampshire County Council on those service charge elements for which Supporting People Grant is received. In 2006/07 Supporting People Grant is expected to rise by 2.5% only and any shortfall against costs would have to be met by tenants. During 2005/06 this Council gave an undertaking to the Supporting People Commissioning Authority (Hampshire County Council) not to pass on any increase above 2.5% to tenants and instead meet any shortfall through service savings within the sheltered housing service. A fundamental service review is currently underway and it is expected that the necessary savings will be found during 2006/07. An initial estimate of the impact on service charges overall (covering both service elements for which supporting people grant is received and those not) is an average increase of 3.5%.

- Recommends garage rent increases of £2.40 per week. This represents an increase of 50% on what is considered a low current rent level of £4.80 per week. This is an issue which was raised during the recent Options Appraisal process and an increase is necessary to ensure the overall viability of the HRA.
- Details the housing subsidy arrangements set by the Office of the Deputy Prime Minister (ODPM) for 2006/07.
- Tenants views will be sought at the Housing, Health and Social Inclusion Review Panel meeting on 18 January.

2.2 It is proposed that the indicative 2006/07 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 2006/07 estimate would then be made available for consideration at the Cabinet meeting on 1 February prior to its approval by Council.

3. INCOME 2006/07

3.1 Estimated total income for 2006/07 is £80k less than was estimated for 2005/06. The major income variations from the 2005/06 approved budget are set out in the table on the following page:

£'000 Paragraph

Dwelling Rents + Service Charges	825	3.2
Housing Subsidy	-945	3.3
Major Repairs Allowance (Subsidy)	23	3.4
Balances Interest	32	3.5
Other	-15	3.6
	<u>-80</u>	

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** – Changes to Housing Subsidy are contributing to the income decrease, as shown in the table below. All major items contributing to this are explained separately in the notes below the table:

£'000

Guideline Rent	-1,204
Capital Financing	-182
Management + Maintenance	<u>441</u>
	<u>-945</u>

Guideline Rent (-£1,204k)

The Government's rent restructuring policy involves increases in guideline rents. For 2006/07 an increase of £5.01 (8.3%) to £65.13 will result in reduced subsidy of £1,204k. 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. Following a revision by Government in the detailed rent restructuring rules, the loss in subsidy has been accelerated in this financial year, but this is partly offset by above inflationary increases in subsidy for management costs (+7%), maintenance costs (+8.2%) and a reduction in rent rebate costs (section 4.6 below).

Capital Financing (-£182k)

This decrease in funding is mainly due to a reduction in the value of grant in lieu of redemption premiums payable of £174k compared to the 2005/06 budget. This latter factor is however balanced by a similar decrease in capital financing costs (section 4.1)

Maintenance and Management (+£441k)

The following factors are responsible for the overall increase of £441k of funding:

- Maintenance Allowance:
Increase: £68.30*5,143 dwellings = **£351k**

- Management Allowance:
Increase: £25.87*5,143 dwellings = **£133k**
- Effect of reduction in dwelling numbers:
Decrease: £1,200.01*36 dwellings = **-£43k**

This is likely to be the last year where the revised Government grant allocation basis results in a substantial increase in the overall allocation to NFDC. In future years the picture is likely to deteriorate as smaller per dwelling increases will be counteracted by losses due to 'right to buy' sales.

- 3.4 **Major Repairs Allowance (Subsidy)** – The subsidy per dwelling has been increased by £9.04 to £645.50. Total subsidy for 2006/07 is based on 5,143 units, resulting in total subsidy of £3.320m. This is an increase of £23k from 2005/06, which will be fully utilised in increases to the expenditure budget.
- 3.5 **Balances Interest** – Balances interest is increasing due to the increasing HRA fund balance.
- 3.6 **Other** – These variations are principally due to reduced income in lieu of the administration of Right To Buy sales (-£31k), partly offset by inflationary increases in other contributions income (£16k).

4. EXPENDITURE 2006/07

- 4.1 Estimated total expenditure for 2006/07 is £63k lower than the amount budgeted for in 2005/06. The major expenditure variations from the 2005/06 approved budget are set out below:

	£'000	Paragraph
Major Repairs (MR)	23	4.3
Additional Contribution to MR	506	4.3
Other Repairs & Maintenance	-373	4.4
Capital Financing Costs	-185	4.5
Other Costs including inflation	-34	4.6
	<u>-63</u>	-

- 4.2 Whilst the majority of costs are growing in line with inflation, there are a number of significant variations:
- 4.3 A £529k increase in planned expenditure on major repairs (£23k + £506k) to £5,279k reflects the increased Major Repairs Allowance (see 3.4 above), and an allocation of additional funds towards the investment needs which the stock option appraisal has indicated. This is less than the expenditure requirement identified in the Stock Option appraisal, but it is proposed to move towards the full

expenditure level in a stepped and planned way. This will help to ensure that we have the full capacity to deal with the practical aspects of the investment and that we have all the control and management systems in place to ensure that the resources are effectively utilised. Additional resources can then be allocated as and when required after prior approval from Members.

- 4.4 Expenditure on other repairs and maintenance budgets (-£373k) has also been adjusted in line with the expenditure recommendations that have emerged from the Stock Option appraisal. Primarily this reflects savings that will be achieved in the Reactive Maintenance budget (-£555k), partly balanced by somewhat smaller increases in Disabled Facilities Grant (+£82k) and Planned and Cyclical Repairs (+£100k).
- 4.5 Capital Financing Costs (-£185k) are decreasing mainly due to a reduction in the cost of early debt repayment premiums (-174k) together with reduced interest costs (-£11k). Those reductions are however largely balanced by reduced Government subsidy as reflected in section 3.3 above.
- 4.6 The total decrease in other costs (-£34k) reflects largely the impact of cost increases in form of inflation and additional superannuation reflected in Supervision and Management costs (+139k), more than offset by a reduction of £174k in anticipated rent rebate costs.

5. HRA EXPENDITURE PROPOSALS

- 5.1 As part of the budget preparation process all budgets have been closely scrutinised and where appropriate budget allocations no longer required have been eliminated. No additional HRA spending needs have been determined on top of those already outlined in this report. This has helped to limit the overall increase in Supervision and Management costs to £139k (2.9%) in spite of substantial increases in utilities costs.

6. HRA BALANCES

- 6.1 HRA balances are currently expected to stand at just under £4m at 31 March 2006. The current surplus projection for 2006/07 stands at £372,000. It is recommended that this amount is set aside as Major Repairs Reserve in order to allow future expenditure commitments on achieving Decent Homes Standard (DHS) to be fulfilled as and when sufficient capacity to do so has been created and as soon as the management systems to monitor the effectiveness of this expenditure are fully implemented. As a result of this and an expected further deterioration in the subsidy situation over the next few years HRA balances are expected to fall, unless a review of progress towards DHS indicates a lower expenditure need in the future.

7. ENVIRONMENTAL IMPLICATIONS

7.1 Although the services covered in this report do clearly have an impact on the Environment, this report focuses on the financial effect of the Governments subsidy proposals and the proposed HRA budgets.

8. CRIME AND DISORDER IMPLICATIONS

8.1 The previous paragraph applies.

9. TENANTS VIEWS

9.1 Tenants' views will be sought at the meeting of the Housing, Health and Social Inclusion Review Panel meeting on 18 January and will be reported back to Cabinet in February.

10. PORTFOLIO HOLDER COMMENTS

10.1 The Portfolio Holder supports the recommendation contained in this report.

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 2006/07 estimate as outlined in this report
- (b) Recommend the proposed increases of: -
 - Service charges in line with the detailed proposals in section 2
 - 2.40p per week in garage rents (plus VAT for garages let to non-council tenants).
 - Recommend the setting aside of the projected HRA surplus of £372k in the Major Repairs Reserve in order to allow its use for future Major Repairs expenditure commitments.
- (c) Note the current proposed rent increase, but defer recommendations until the final report is submitted in February.

(d) Agree the reporting process proposed and outlined in paragraph 2.2.

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Background Papers:

Rent Restructuring (Report B)
21 November 2001

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