

HOUSING REVENUE ACCOUNT ESTIMATES 2007/08**1. INTRODUCTION**

- 1.1 The Office of the Deputy Prime Minister has issued the Consultation Subsidy Determination for the Housing Revenue Account for 2007/08.
- 1.2 This report sets out the Draft Housing Revenue Account for 2007/08 together with the anticipated impact of the Draft 2007/08 Subsidy Determination on the Council's 2007/08 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 2007/08 is included in **Appendix A**, with 2006/07 figures shown for comparison.

2. KEY ISSUES

- 2.1 Cabinet is asked to consider a number of financial issues for 2007/08. 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 of the rules by the Government last year, would be an approximate average increase of 5% in rents for 2007/08. This would typically raise the average rent by £3.47 to £72.84 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 2007/08 continue to be 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%. This does however mean that service charges will need to increase by a similar percentage for the foreseeable future.

Sheltered Housing:

Factors to be taken into account in the setting of the service charge increase for 2007/08 include the major review of Supporting People services and the significant increases in the cost of utilities such as gas and electricity. An average increase in weekly service charges of 5% is proposed. For the purposes of setting this budget a prudent assumption has been made that income for 2007/08 will at least equal the currently projected income for 2006/07. More detail will be reported as decisions about the sheltered housing service are made in the forthcoming months.

- Recommends garage rent increases of £1.15 per week. This represents an increase of 20% from £5.76 to £6.91 in line with the recommendations made by Panel last year and subsequently adopted by Cabinet.
- Details the housing subsidy arrangements set by the Office of the Deputy Prime Minister (ODPM) for 2007/08.
- Tenants views will be sought at the Tenants' Consultative Group Meeting in January.

2.2 It is proposed that the indicative 2007/08 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 2007/08 estimate would then be made available for consideration at the Cabinet meeting on 7 February prior to its approval by Council.

3. INCOME 2007/08

3.1 Estimated total income for 2007/08 is £433k more than was estimated for 2006/07. The major income variations from the 2006/07 approved budget are set out in the table on the following page:

	£'000	Paragraph
Rents + Service Charges	1,243	3.2
Contributions towards Expenditure	-161	3.3
Housing Subsidy	-693	3.4
Major Repairs Allowance (Subsidy)	26	3.5
Balances Interest	84	3.6
Other	-66	3.7
	<u>433</u>	

3.2 **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', and the loss of rental and service charge income in respect of Churchill Court and Trafalgar House. About £400k of the increased income is due to the fact that there are 53 rent weeks in 2007/08 (compared to 52 weeks in the previous year).

- 3.3 **Contribution towards Expenditure** – The change in the income budget reflects principally the removal of all Central Control income not derived from services to Sheltered Housing and Community Alarms (£137k) and a reduction of the charge to the Community Alarm Service of £10k. This change is expected to be offset by an equivalent reduction in Central Control costs (see 4.7 below) and projected savings of £40k (see 4.3 below).
- 3.4 **Housing Subsidy** – Changes to Housing Subsidy are substantially reducing the overall increase in income, as shown in the table below. All major items contributing to this are explained separately in the notes below the table:

	£'000
Guideline Rent	-955
Rental Constraint Allowance	63
Capital Financing	-18
Management + Maintenance	217
	<u>693</u>

Guideline Rent (-£955k)

The Government's rent restructuring policy involves increases in guideline rents. For 2007/08 an increase of £4.59 (7%) from £65.13 to £69.72 will result in reduced subsidy of £955k. This withdrawal of subsidy will continue 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 (+4.7%), maintenance costs (+4.6%) and a reduction in rent rebate costs (section 4.8 below).

Rental Constraint Allowance (£63k)

The Government's rent restructuring policy does not allow the Council to raise the average rent by more than 5%, in spite of the fact that adherence to the formula would result in a slightly steeper increase. This means that the Council will forego some rental income. In the last year the effect on this Council was negligible, whilst this year the Government's assumption is that NFDC will be entitled to compensation for this income loss of £63k.

Capital Financing (£-18k)

This overall decrease is mainly due to the phasing out of the Admissible Allowance (-£23k) and a reduction of grant in lieu of redemption premiums payable of £61k compared to the 2006/07 budget, which is only partly offset by increased funding to reflect increased interest costs (£66k). The reduction of funding in respect of redemption premiums is balanced by a similar decrease in capital financing costs (section 4.7).

Maintenance and Management (£217k)

The following factors are responsible for the overall increase of £217k of funding:

- Maintenance Allowance:
Increase: £40.42*5,054 dwellings = **£204k**

- Management Allowance:
Increase: £18.44*5,054 dwellings = **£93k**

- Effect of reduction in dwelling numbers:
Decrease: £1,278.88*63 dwellings = **-£80k**

Whilst per unit subsidy increases are in excess of 4% the total increase in subsidy for maintenance and management costs is 3.3% compared to last year due to a reduction in dwelling units.

- 3.5 **Major Repairs Allowance** – The subsidy per dwelling has been increased by £13.21 (2.1%) to £654.74. Subsidy for 2007/08 is based on 5,054 units, resulting in a total of £3.309m. This is an increase of £26k from 2006/07.
- 3.6 **Balances Interest** – Balances interest is contributing an extra £84k due to the increasing HRA fund balance.
- 3.7 **Other** – These variations are principally due to reduced income in lieu of the administration of Right To Buy sales (-£71k) following a tightening up by the DCLG of the rules in respect of allowing costs to be offset against capital receipts. This is only partly offset by additional Shared Amenities Contribution income of £6k.

4. EXPENDITURE 2007/08

- 4.1 Estimated total expenditure for 2007/08 is £32k lower than the amount budgeted for in 2006/07. The major expenditure variations from the 2006/07 approved budget are set out below:

	£'000	Paragraph
HRA Expenditure/Savings Proposals	-141	4.3/4.4
Major Repairs (MR)	-36	4.5
Environmental Enhancements	100	4.5
Other Repairs & Maintenance	39	4.6
Capital Financing Costs	-51	4.7
Other Costs including inflation	57	4.8
	<u>-32</u>	

- 4.2 Whilst the majority of costs are growing in line with inflation, there are a number of significant variations:

4.3 Additional HRA Expenditure Proposals (£79k)

- Additional Asset Management Software is required to allow the effective monitoring and management of property data, both to provide decent home reports and future planned maintenance programmes at a projected one off cost of £35k.
- An Anti-Social Behaviour module needs to be added to the Orchard System to provide effective management and monitoring of this growing area of work. This is expected to lead to one off costs of £6k.

- The housing service currently uses a document imaging system and all new letters and documents are scanned onto the DIP system for electronic circulation and retrieval by staff. Existing documents and files are still held as hard copies. This can lead to difficulties for staff that need to refer to two places when dealing with issues (i.e. files and DIP system). This is inefficient and in addition the need for filing takes up much space in the offices. It is therefore proposed to now scan historic documents. Because the housing service is funded by both the HRA and the General Fund, it has been assessed that 80% of the total one off cost would fall on the HRA (£20k).
- To promote tenant and resident involvement on council estates it is proposed to instigate a tenant grant scheme to allow tenants to apply for funding to improve their environment. Grant to a maximum of £1k would be available to tenant groups for such things as plants for a communal area, garden benches, or funding for local events (£15k).
- On 6 December Cabinet agreed the inclusion of maintenance expenditure (£2,600) relating to the Blackfield Neighbourhood Play Area project in the expenditure plans for 2007/08.

4.4 HRA Savings Proposals (-£220k)

- Full year savings from the restructuring of the service amounting to £100k are expected to be achieved in 2007/08, with 80% of this saving benefiting the HRA (£80k), and the remainder having been offered as an expenditure plan saving to the General Fund.
- Reports on Sheltered Housing and Central Control in the last few months have highlighted the need to reduce sheltered housing costs in order to ensure that the service remains viable given the need to comply with the Supporting People framework and to ensure that any future Central Control service is able to secure the standards required for the continued needs of sheltered housing and community alarm users. It is expected that the implementation of the recommendations will lead to an eventual cost reduction of £200k for the Sheltered Housing service, but due to the phasing in of these recommendations the effect in 2007/08 is limited to a likely saving of £100k. Changes to the provision of the Central Control service are expected to lead to overall savings of £50k, with 80% allocated to the HRA (£40K) and the remainder offered as a saving to the General Fund in respect of reduced Community Alarm Scheme costs.

4.5 Work undertaken by consultants as part of the stock option appraisal indicated that investment into achieving the decent homes standard would need to rise substantially beyond the budget for major repairs allocated in 2006/07. A recent review of the investment need, reported to Members in November 2006, has however shown that the consultant's estimates were unnecessarily pessimistic and that the forecast expenditure needs can be revised. As a result the budget has only been adjusted to reflect inflation in conjunction with an adjustment for stock losses and £100k of this total has been set aside for Environmental Enhancements, resulting in an overall reduction of the Major Repairs budget of £36k to £5.243m.

- 4.6 Expenditure on other repairs and maintenance budgets (£39k) have also been adjusted in line with inflation and reducing stock numbers with the exception of the HRA Disabled Facilities budget, which has been increased by £15k to allow for minor adaptations work (grab rails etc), which is no longer funded by HCC Social Services.
- 4.7 Capital Financing Costs (-£51k) are decreasing mainly due to a reduction in the cost of early debt repayment premiums (-61k) partly offset by increased interest costs (£10k). Those reductions are however largely balanced by an adverse impact on Government subsidy as reflected in section 3.4 above.
- 4.8 The total increase in other costs (£57k) reflects largely the impact of net cost increases in form of inflation on supervision and management costs (£248k), offset by the removal of Central Control costs of £137k (see 3.3. above), reduced charges in respect of Council House sales (-£39k) following a continued downturn in right to buy sales and a reflection of Government rules on allowable charges and reduced rent rebate costs (-£15k) as a result of a closing of the gap between actual and limit rents.

5. HRA BALANCES

- 5.1 HRA balances are currently expected to stand at approximately £4.9m at 31 March 2007. The projection for 2007/08 indicates an HRA surplus of £582,000 (subject to agreement of the expenditure/savings proposals in section 4.3). This surplus is largely (£400k) the result of the fact that there will be an additional rent week in 2007/08, supplemented by expected interest earnings of £264k. Without those 2 factors the HRA would have ended up with an annual deficit. Following the recent report on Decent Homes progress, work will commence in the new year on a 5-10 year business plan projection reflecting the outcome of the Decent Homes report and its continued impact on investment needs, the result of the Housing Service restructuring (including changes to Sheltered Housing and Central Control) and the increasing negative subsidy payable by the Council to Government.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 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.

7. CRIME AND DISORDER IMPLICATIONS

- 7.1 The previous paragraph applies.

8. TENANTS VIEWS

- 8.1 Tenants' views will be sought at the meeting of the Tenants' Consultative Group in January and will be reported back to Cabinet in February.

9. PORTFOLIO HOLDER COMMENTS

9.1 The Portfolio Holder supports the proposals in this report and the recommendations as detailed below.

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 2007/08 estimate as outlined in this report
- (b) Recommend the proposed increases of: -
 - Service charges in line with the detailed proposals in section 2
 - £1.15 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/savings proposals not previously agreed in sections 4.3/4.4.
- (e) 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

Other documents as referred to in
report

Appendix A

	2006/07 ESTIMATE £'000	2007/08 ESTIMATE £'000	Para
INCOME			
Dwelling Rents	-18,075	-19,282	3.2
Non Dwelling Rents			
Garages	-568	-658	3.2
Land & Buildings	-50	-50	3.2
Charges for Services & Facilities	-1,225	-1,171	3.2
Contributions towards Expenditure	-313	-152	3.3
Government Subsidies			
Housing Subsidy	9,582	10,275	3.4
Major Repairs Allowance	-3,283	-3,309	3.5
Interest Receivable			
Mortgage Interest	-3	-2	3.7
Balances Interest	-180	-264	3.6
Other			
Shared Administration Recharge	-86	-15	3.7
Shared Amenities Contribution	-123	-129	3.7
TOTAL INCOME	-14,324	-14,757	
EXPENDITURE			
Repairs & Maintenance			
Major Repairs Allowance	3,283	3,309	4.5
Additional Contribution to Major Repairs	1,996	1,934	4.5
Environmental Enhancements	0	100	4.5
Cyclical	1,109	1,123	4.6
Disabled Facilities	444	459	4.6
Reactive	1,800	1,810	4.6
Supervision & Management			
General Management	2,746	2,889	4.3/4.4/4.8
Special Services	1,995	1,831	4.3/4.4/4.8
Homeless Assistance	89	79	4.3/4.4/4.8
Sale of Council Houses	87	49	4.3/4.4/4.8
Rents, Rates, Taxes and Other Charges	26	26	
Rent Rebates	223	208	4.8
Provision for Bad Debt	30	30	
Capital Financing Costs	379	328	4.7
TOTAL EXPENDITURE	14,207	14,175	
HRA ACCOUNT ANNUAL SURPLUS	-117	-582	