

**CABINET – 2 JANUARY 2008
HOUSING REVIEW PANEL – 16 JANUARY 2008**

HOUSING REVENUE ACCOUNT ESTIMATES 2008/09

1. INTRODUCTION

- 1.1 The Department for Communities and Local Government (DCLG) has issued the Consultation Subsidy Determination for the Housing Revenue Account for 2008/09 (draft subsidy).
- 1.2 This report sets out the Draft Housing Revenue Account (HRA) for 2008/09 based on the draft subsidy. The figures are subject to variation, dependent on final cost allocations from internal business units and may also change if the Government decides to make changes to the draft subsidy.
- 1.3 An indicative HRA estimate is included in **Appendix A**.

2. KEY ISSUES

- 2.1 Cabinet is asked to consider a number of financial issues for 2008/09.
- 2.2 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 proposed revision to the detailed rules within the draft subsidy, would be an approximate increase of 5%. This would increase the average rent by £3.65 to £76.63 per week.
- 2.3 **Hostels – Service Charges:** Due to cost pressures in recent years, particularly from the substantial rises in utilities charges (which make up a significant proportion of costs), a £4,000 gap developed between costs and service charge income. As a result, whilst the longer term goal is to fully recover costs, it is proposed to continue with the phased approach adopted previously, which is to increase service charges by 5% and so minimise the immediate cost impact on a vulnerable client group.

- 2.4 **Sheltered Housing – Service Charges:** The primary aim when reviewing and setting the service charge is to ensure that relevant costs are fully recovered. An average increase in service charges of 5% is proposed. Following the review of Supporting People service provision, tenants of decommissioned sites are currently being consulted on whether they wish to continue to use the communal facilities of nearby sheltered housing schemes. In arriving at the proposed increase, provision has been made for some reduction in the number of tenants who remain liable to pay the communal service charge as a consequence of this. The full impact of this will become clear in due course. Any further necessary amendments to service charges will be implemented in future years.
- 2.5 A garage rent increase of 69 pence per week is recommended. This is an increase of 10%, from £6.91 to £7.60, and is in line with the recommendations made by Panel on 18 January 2006 and subsequently adopted by Cabinet on 1 February 2006.
- 2.6 The report details the draft housing subsidy arrangements issued by DCLG for 2008/09.
- 2.7 Tenants' views will be sought at the Tenants Consultative Group meeting in January.
- 2.8 It is likely that the HRA estimates contained in this report will be revised in due course to reflect final detailed business unit allocations, changes in HRA policy determined by Cabinet and any revisions to the draft subsidy when announced by DCLG after consultation has completed in January 2008. The updated estimates will be made available for consideration at the Cabinet meeting on 6 February prior to approval by Council.

3. INCOME 2008/09

- 3.1 Estimated total income for 2008/09 is £316k less than was estimated for 2007/08. The income variations from the 2007/08 approved budget are set out below:

	£000	Paragraph
Rents and Service Charges	-613	3.2
Contributions Towards Expenditure	-5	3.3
Housing Subsidy	942	3.4
Major Repairs Allowance (Subsidy)	-6	3.5
Interest Receivable	2	3.6
Other	-4	3.7
	316	

- 3.2 **Rents and Service Charges** – The income budget reflects the proposed rent and service charge increases set out in section 2.1 (-£1.04m), partly offset by the implications of rent loss from the reduction in dwelling numbers as a result of ‘Right to Buy’ (£41k). The net increase is reduced by last year being a 53-week year (£386k).
- 3.3 **Contribution towards Expenditure** – The anticipated contribution is expected to be similar to that received last year.
- 3.4 **Housing Subsidy** – Changes to Housing Subsidy are responsible for the income levels being less than last year, as shown in the table below. All major items contributing to this are explained separately in the notes below the table:

	£000
Guideline Rent	961
Rental Constraint Allowance	0
Capital Financing	30
Maintenance and Management	-55
	<u>936</u>

- Guideline Rent (£961k)**
 The Government’s rent restructuring policy involves increases in guideline rents. For 2008/09 an increase of £3.89 (5.6%) from £69.71 to £73.60 will result in reduced subsidy of £961k. This withdrawal of subsidy will continue until the guideline rent and actual rents charged by the Council have converged with the formula rent level. The Government has again changed the detailed rent restructuring rules, which has seen the loss in subsidy accelerated further.
- Rental Constraint Allowance (£0k)**
 As a result of the change to the rent restructuring rules, which has meant a return to the caps and limits approach, there has been no provision within the draft subsidy for a rental constraint allowance. This may however change in the final subsidy and any impact to the HRA will be reported to Cabinet in February.
- Capital Financing (£30k)**
 This overall decrease is mainly due to a reduction of grant in lieu of redemption premiums payable of £26k compared to the 2007/08 budget. 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 (-£55k)**

The following factors are responsible for the overall increase of £55k in funding:

Allowances:	2007/08	2008/09	Change
Maintenance	£928.21	£928.21	+£0.00
Management	£410.22	£423.68	+£13.46
Dwellings	5,054	5,044	-10 no.

Maintenance Allowance

07/08	£928.21 x 5,054 dwellings =	-£4,691,170
08/09	£928.21 x 5,044 dwellings =	-£4,681,890
	Reduction in Allowance	£9,280

Management Allowance

07/08	£410.22 x 5,054 dwellings =	-£2,073,250
08/09	£423.68 x 5,044 dwellings =	-£2,137,040
	Increase in Allowance	-£63,790

The per unit subsidy increase in the management allowance is 3.28%. However as a result of the reduction in the number of dwellings and the unchanged maintenance allowance, the £55k increase represents a subsidy growth of just 0.81%.

- 3.5 **Major Repairs Allowance** – The subsidy per dwelling has been marginally increased by £2.91 (0.43%) to £657.65. The allowance for 2008/09 is based on 5,044 units, resulting in a total subsidy of £3.317m. This is an increase of £6,000.
- 3.6 **Interest Receivable** – Balances interest is largely unchanged despite the reduction to HRA reserves, due to the current predicted level of interest rates.
- 3.7 **Other** – The remaining variation is due to an increase in the Shared Amenities Contribution.

4. EXPENDITURE 2008/09

- 4.1 Estimated total expenditure for 2008/09 is £723k higher than the approved budget for 2007/08. The major variations are set out below:

	£000	Paragraph
HRA Savings Proposals	-20	4.3
Major Repairs	352	4.4
Cyclical Maintenance	75	4.5
Other Repairs and Maintenance	190	4.6
Capital Financing Costs	-25	4.7
Other Costs Including Inflation	151	4.8
	<u>723</u>	

- 4.2 Whilst the majority of costs are growing in line with inflation, there are a number of significant variations:
- 4.3 **Additional Supervision and Management Proposals (-£20k)**
- There are no additional HRA expenditure proposals to be reported for this financial year.
 - A one-off cost of £20k was incurred in 2007/08 as a result of scanning historic documents. This funding is no longer required.
- 4.4 **Major Repairs (£352k)**
- The ten year maintenance and improvement programme was presented to Members on 21 November 2007 (Housing Review Panel – Report C) and included provision to increase funding to ensure the Decent Homes Standard (DHS) was achieved by 2010. The result is an increase in the Major Repairs budget of £352k to £5.595m. It should be noted however that there are sufficient reserves to fund this increase (see paragraph 5) and that the programme includes a reduction of over £600k to £4.976m, effective from 2009/10.
- 4.5 **Cyclical Maintenance (£75k)**
- The increase will predominantly fund gas servicing requirements and the continuing series of external decoration works.
- 4.6 **Other Repairs and Maintenance (£190k)**
- This increase has been necessary to bring the reactive maintenance budget in line with the actual level of expenditure incurred in recent years. The provision for environmental enhancements and disabled facilities grants are unchanged.
- 4.7 **Capital Financing Costs (-£25k)**
- These are decreasing mainly due to a reduction in the cost of early debt repayment premiums.
- 4.8 **Other Costs Including Inflation (£151k)**
- The total additional expenditure in other costs reflects largely the impact of inflation on supervision and management costs (£175k), plus growth in allocations from business units (£22k). The allocations changes are predominantly due to increases in the employee costs for HRA work from Housing (£15k) and Commercial Services (£11k). This is offset by reduced rent rebate costs (-£45k) as a result of a closing of the gap between the actual and limit rents.

5. HRA BALANCES

- 5.1 HRA balances are currently expected to stand at approximately £5.5m at 31 March 2008. The projection for 2008/09 indicates an HRA deficit of £488,000 (subject to agreement of the expenditure/savings proposals in section 4.3) and is a swing of £1.04m from the surplus balance (-£551k) in 2007/08.

This movement is largely the result of the increase in net subsidy payable (£936k) to the Government; the additional expenditure on Major Repairs (£617k) to fund DHS; and the increase in Supervision and Management Costs (£177k), offset by additional rent income (-£613k); the reduction to rent rebates (-£45k) and lower capital financing costs (-£26k). The swing is compounded by the change from a 53-week rent year back to a 52-week year.

Whilst a deficit is still likely in 2009/10, it is anticipated that this will not be as significant as that for 2008/09.

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 Government's 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 recommendations.

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 2008/09 estimate as outlined in this report.
 - (b) Recommend the proposed increases of:
 - Service charges in line with the detailed proposals in Section 2.
 - £0.69 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 saving proposals not previously agreed in section 4.3.
 - (e) Agree the reporting process proposed and outlined in paragraph 2.8.

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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

HOUSING REVENUE ACCOUNT ESTIMATES

	2007/08 Estimate	2008/09 Estimate	Variation	Paragraph
INCOME				
Dwelling Rents	-19,282	-19,895	-613	3.2
Non Dwelling Rents				
Garages	-658	-702	-44	3.2
Land & Buildings	-50	-50	0	3.2
Charges for Services & Facilities	-1,172	-1,128	44	3.2
Contributions towards Expenditure	-152	-157	-5	3.3
Government Subsidies				
Housing Subsidy	10,295	11,237	942	3.4
Major Repairs Allowance	-3,311	-3,317	-6	3.5
Interest Receivable				
Mortgage Interest	-2	-2	0	3.6
Balances Interest	-264	-262	2	3.6
Other				
Sales Administration Recharge	-15	-15	0	3.7
Shared Amenities Contribution	-129	-133	-4	3.7
TOTAL INCOME	-14,740	-14,424	316	
EXPENDITURE				
Repairs & Maintenance				
Major Repairs Allowance	3,311	3,317	6	4.4
Additional Contribution to Major Repairs	1,932	2,278	346	4.4
Environmental Enhancements	100	100	0	4.6
Cyclical	1,123	1,198	75	4.5
Disabled Facilities	459	459	0	4.6
Reactive	1,810	2,000	190	4.6
Supervision & Management				
General Management	2,900	2,999	99	4.3 / 4.8
Special Services	1,834	1,906	72	4.8
Homeless Assistance	79	81	2	4.8
Sale of Council Houses	49	51	2	4.8
Rents, Rates, Taxes and Other Charges	26	27	1	4.8
Rent Rebates	208	163	-45	4.8
Provision for Bad Debt	30	30	0	4.8
Capital Financing Costs	328	303	-25	4.7
TOTAL EXPENDITURE	14,189	14,912	723	
HRA ANNUAL SURPLUS(-) / DEFICIT	-551	488	1,039	