
REPORT TO:	HOUSING AND COMMUNITY SERVICES COMMITTEE	AGENDA ITEM:	11
DATE OF MEETING:	8th JANUARY 2004	CATEGORY:	RECOMMENDED
REPORT FROM:	CHIEF FINANCE OFFICER	OPEN	
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC:	u/ks/budget200405/hra
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGETS, FINANCIAL PROJECTIONS & PROPOSED RENT INCREASE 2004/05	REF:	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE:	FM08

1.0 Recommendations

- 1.1 That the proposed estimates of income and expenditure for 2003/04 and 2004/05 for the Housing Revenue Account are considered and referred to the Finance and Management Committee for approval.
- 1.2 That the financial forecast for the Housing Revenue Account to 2010 is noted.
- 1.3 That the Target Rents for individual tenants be increased by 3.96% for 2004/05.
- 1.4 That the Housing Revenue Account's proposed fees and charges for 2004/05 are approved.

2.0 Purpose of Report

- 2.1 To detail the Housing Revenue Account's (HRA) probable out-turn for 2003/04, the base budget for 2004/05, and the financial forecast to 2010 (as summarised in **Appendix 1**). It also sets out details of the proposed rent increase for 2004/05 together with proposals for the level of other fees and charges levied in the HRA.

3.0 Executive Summary

Probable Out-turn 2003/04

- 3.1 The deficit on the HRA is estimated to be approximately £540,000 for 2003/04, which is broadly in line with that previously projected in July 2003 of approximately £1/2m. (Although this was an increase on the original cash limit estimate of around £172,000, which was revised to take account of the 2002/03 out-turn position and variations that had arisen since February 2002).
- 3.2 Consequently, HRA Balances will still be well above the recommended minimum of £1/2m as at 31st March 2004, i.e. £875,000.

Base Budget 2004/05

- 3.3 The base estimate for 2004/05 shows a **surplus** of approximately £325,000. Compared to the deficit of £540,000 for 2003/04 above, this is an increase in overall resources of some £865,000.
- 3.4 The previous projection in July 2003 did forecast a reduction in the deficit to approximately £200,000 for 2004/05, mainly due to a reduction in capital financing costs. However, additional resources will be made available from an increase in Government subsidy for Management and Maintenance costs of approximately £300,000 in 2004/05.
- 3.5 In addition, the direct repairs budget has been reduced by £175,000 from 2004/05 (Planned Maintenance £125,000 and Voids £50,000). Together, this will push the overall HRA into surplus.
- 3.6 Consequently, the level of balances is now projected to be approximately £1.2m at 31st March 2005.

Financial Projection to 2010

- 3.7 To satisfy the work programme required for the Stock Options Review, a financial forecast has been made to 2010; i.e. the Government's target date for achieving the Decent Homes Standard. This shows that the HRA will again fall into deficit from 2006/07, this deficit-increasing year on year to 2009/10.
- 3.8 Due to the current level of HRA balances, this deficit can be sustained until 2008/09, after which the level of balances will fall to just above the minimum level of £1/2m. By 2009/10, the HRA will have an accumulated **deficit of around £267,000**.
- 3.9 As previous HRA reports have highlighted, this is due to the continuing reduction in the HRA's income base, i.e. rents (a combination of lower rents overall due to rent restructuring together with council house sales) and housing subsidy, again due to council house sales reducing Government subsidy.
- 3.10 The main controllable costs, except repairs, are largely fixed (staffing) and these are expected to increase in line with inflation. In addition, the forecast assumes no further reductions in housing repairs after 2004/05.
- 3.11 Clearly, any forecast, especially over 7 years, needs to be treated with a certain degree of caution. Some further analysis, especially around sensitivity, is being undertaken for the Stock Options Review. In addition, housing repairs spend in particular, should continue to be reviewed, as this is perhaps the main area of cost where there may be some degree of flexibility and control.
- 3.12 In addition, there may also be potential for using capital resources to finance some of the projected repairs expenditure. However, this could have an impact on the level of resources for other capital investment elsewhere in the Council.
- 3.13 It is considered that there may be scope for further reductions in this area around central heating and window replacements as these schemes tailor off. However, there may be pressure in other areas, which means that these resources may have to be redirected.

Service Developments

- 3.14 The base estimates make no provision for any service improvements over the 2004 to 2010 planning period. Any growth in service provision during this period could result in the HRA falling below its minimum level of balances much earlier.
- 3.15 For example, a further £100,000 of additional recurring expenditure from 2004/05 would cost £600,000 by 2010 and result in a projected deficit of approximately £867,000 by 2009/10. It must be emphasised that Council's are not permitted to sustain a deficit on their HRA.
- 3.16 This means that the Council will need to take some tough decisions to decide whether it can achieve savings of £767,000 over the next 6 years (i.e. to offset the deficit of £267,000 and maintain a balance of £0.5m). In essence, this will require savings of approximately £130,000 to be achieved in each of the next 6 years before taking into account any additional savings to finance service improvements.
- 3.17 As agreed by Housing and Community Services Committee recently there is also a need to drive forward performance improvement and there is a limit to what can be achieved with current staffing levels without these service developments. Inevitably there is a balance between any service development and affordability, which members will need to consider.

4.0 Detail

The report is sub-divided into several appendices, as follows:

- **Appendix 1** - a summary of each main income and expenditure head within the HRA for 2003/04 to 2009/10
- **Appendix 2** showing a detailed calculation of housing subsidy.
- **Appendix 3** – a schedule showing the proposed fees and charges for the HRA for 2004/05.
- **Appendix 4** – showing in total the amount of central and departmental support costs charged to the HRA.

BUDGET BOOKLET

In addition, a detailed budget booklet should be enclosed with this report. This shows a "line by line" breakdown of the HRA for 2003/04 and 2004/05. Clearly, when individual cost centres are scrutinised in detail, there are variances between figures year on year and it would be impractical to explain all of these in the report. Hopefully, officers will answer any specific queries raised before or at the meeting. This main report sets out the main variations and summarises the overall position.

Basis of 2004/05 Estimates (Base Budget)

- 4.1 The budget for 2004/05 has initially been compiled at November 2003 prices. An allowance for inflation has then been added where this is considered unavoidable, to cover for price increases from November 2003 to March 2005. This calculates the

cash limit estimate for 2004/05, in which budgets should be managed. The assumptions built into estimates are as follows:

- Employee Costs (including employer's pension contributions) - 3.5%
- Transport Costs – 3.25 %
- Business Rates – 3%
- Office Expenses – 1%
- Utilities – 3% (taking account of current volume/usage figures)
- Grants to Voluntary Bodies – 3%
- Contracted Services (including agency temps & sub contractors) – 3%
- Insurance – 5%
- Other Services – 2.5%

- 4.2 The estimates are also based on service levels in 2003/04 continuing, and include any full year effects of previous year's growth and capital expenditure. However, any non-recurring items have been removed.

Rent Rebates

- 4.3 A fundamental change to the HRA from 2004/05 is that the cost and subsequent Government subsidy for rent rebates will be accounted for in the General Fund. This is the final piece of the Government's recent reforms for the HRA, i.e. to make it a purely "Landlord Account."
- 4.4 The HRA will continue to subsidise the cost of rebates that it "loses" due to the Government's rent rebate subsidy limitation scheme ("rent capping"). However, this reduces over the forecast period due to the Council's average rent being brought into line with that of the Government's under rent restructuring. However, overall, the HRA will eventually benefit by approximately £47,500 per year.

Housing Subsidy

- 4.5 As reported to the Council's Finance and Management Committee (October 2003), the Government have reviewed the formula for allocating subsidy towards the costs of Management and Maintenance that it provides to housing authorities. This has given the Council around £300,000 per year in extra subsidy from 2004/05. However, the Government have not implemented the full effects of the revised formula.
- 4.6 This has potentially left the HRA approximately **£1/4m below** the Government's assessment (£1.5m over this planning period). However, there is no firm indication at this stage whether there will be a phased increase to the new formula (as originally proposed).
- 4.7 The HRA will continue to be in "negative subsidy," i.e. the Government's formula assumes that the Council's HRA receives more in rent than its total expenditure (see **Appendix 2**). As the subsidy on rent rebates will now be paid into the Council's General Fund, the HRA will not receive any subsidy, but will actually make a payment to the Government's National Pool from 2004/05. The additional subsidy above for management and maintenance only reduces the amount the HRA pays over to the Government.

Rent Increase 2004/05

- 4.8 In accordance with the Government's Rent Restructuring Policy, Council Tenants are being moved towards their Target Rent in equal instalments until 2011/12. 2004/05 will represent the 3rd year this policy has been in place. Previous reports to this Committee have provided details of the Government's Rent Restructuring mechanism for setting local authority rents.
- 4.9 In addition, during September and October of 2002, tenants were informed of the proposals and general implications via area tenant meetings. The Council is effectively tied to the Government's Rent Restructuring formula in setting its annual rent increase. The Government has notified the Council that the Target rent for individual tenants should be increased by **3.96%** for 2004/05 (2.46% inflation, plus a 1.5% real terms increase in overall rent).
- 4.10 Individual tenants will see their rent change depending on how their current rent compares to the Target. Tenants were given an indication at the outset whether their rent would increase or decrease over the restructuring period. Many tenants are seeing their rents increase, but more will benefit from reducing rents.
- 4.11 As previously reported, the overall effect on the HRA is fairly neutral in that year on year rent income (apart from rent loss via Right to Buys) will remain broadly the same. This is effectively a real terms decrease in overall rent income.
- 4.12 The HRA will gain slightly whilst the Government allows real term increases in overall rent levels. For 2004/05, the Council will generate approximately £50,000. However, this only equates to **0.6%** compared to the 3.96% target increase above.

Assumptions and Risk Analysis

- 4.13 It was highlighted in paragraph 3.11 above that any forecast, especially over 7 years, needs to be treated with a certain degree of caution. The table below assesses some of the key financial assumptions and risks that could affect the financial projection for the Housing Revenue Account.

Assumption/Risk	Action
Insurance Costs – these have risen sharply over the last 2 years and the HRA is now bearing a greater share of the premiums based on recent claims experience and risk assessment. If these continue to rise and/or claims do not improve, this could place an increased burden on budgets.	Projection reflects increased insurance costs. Insurers working with Council's Risk Management Group to reduce claims. Re-tendering the current insurance contract is being considered as an option.
Pension Costs – indications suggest a significant increase in employer contributions from the next valuation 2005/06.	A contingency has been built into the projections based on an interim valuation of the Pension Fund. Actual costs will now depend on performance of the Fund over the next year.

<p>Housing Repairs – reductions could affect service delivery and in meeting Decent Homes targets for 2004 & 2010.</p>	<p>A reduction of £175,000 already taken out from 2004/05. Could extend the cyclical planned maintenance programme or use capital (MRA) funding. Also option of using resources from the Single Capital Pot (although this could have implications for capital investment elsewhere in the Council).</p>
<p>Supporting People (SP) – level of grant from the County Council is reduced. Amount of over £300,000 built into projection on an on-going basis is significant.</p>	<p>Uncertainty still exists around the future funding of SP. It could conceivably increase, but the projection assumes a “stand still” position to 2010 i.e. a decrease in real terms to act as a margin. Council’ s arrangements to be reviewed next year and clearly this will need monitoring.</p>
<p>Rents – Government discontinue real terms increases in Target rents</p>	<p>Current Government policy has indicated that this will continue until rent restructuring is fully implemented. Although fairly neutral, the Council will benefit by £40,000 to £50,000 per year. Clearly, if this is not the case, it will affect the projections.</p>
<p>Council House Sales – these are continuing at the previously forecasted level, reducing rent income accordingly (on average at £2,500 per property per year). In addition, a reduction in stock numbers reduces subsidy entitlement as management and maintenance allowances are paid per property. This equates to £833 per property per year.</p>	<p>Mainly, outside the control of the Council. Projections assume an existing level of 140 per year continuing to 2005/06. Projection then assumes these tail off at around 20-30 per year. Clearly, if this does not happen, it will worsen the overall position of the HRA currently projected.</p>
<p>Housing Subsidy – although the Government have just reviewed management and maintenance allowances (from which the Council has benefited) there are tentative proposals to base a proportion of subsidy on an assessment of Business Plans.</p>	<p>Difficult to assess at this stage as no firm proposals have been published. Perversely, Housing subsidy will continue to be a significant element of the HRA in that it will determine how much the Council contributes to the National Pool (see paragraph 4.7) Any changes could have a major impact.</p>

Proposed Fees and Charges 2004/05

- 4.14 **Appendix 3** provides a schedule of the proposed level that will operate from 1 April 2004, together with a comparison to the existing charge. A majority of the charges associated with Supporting People (SP) are dependent on what the County Council's SP pot will fund. This is unlikely to be known before the meeting and update will be provided.
- 4.15 Other proposed charges for hire of rooms have been increased by around inflation (2.5%) and garages in line with the Government's increase for Target Rents (3.96%).

5.0 Financial Implications

- 5.1 As detailed in the report

6.0 Corporate Implications

- 6.1 As detailed in the report

7.0 Community Implications

- 7.1 As detailed in the report

8.0 Conclusions

- 8.1 The Committee is requested to consider carefully the income and expenditure proposals of the HRA in the light of its overall financial position, and to recommend a level of income and expenditure for Finance and Management Committee.

9.0 Background Papers

Housing Subsidy Determination (and associated papers) 2004/05

