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REPORT TO:	HOUSING AND COMMUNITY SERVICES COMMITTEE	AGENDA ITEM: 15
DATE OF MEETING:	3 <sup>RD</sup> FEBRUARY 2005	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/budget200506/hra budget report
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGETS, FINANCIAL PROJECTIONS & PROPOSED RENT INCREASE 2005/06	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: HC01

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## 1.0 Recommendations

- 1.1 That a rent increase of 4.03% for 2005/06 in accordance with Government guidelines be approved and is adjusted for individual tenants in accordance with the Rent Restructuring Formula.
- 1.2 That the proposed estimates of income and expenditure for 2004/05 and 2005/06 for the Housing Revenue Account are considered and referred to the Finance and Management Committee for approval.
- 1.3 That the updated financial forecast for the Housing Revenue Account to 2015 is noted.

## 2.0 Purpose of Report

- 2.1 To detail the Housing Revenue Account's (HRA) probable out-turn for 2004/05, the base budget for 2005/06, and an updated financial forecast to 2015 (as summarised in **Appendix 1**). It also sets out details of the proposed rent increase for 2005/06.

## 3.0 Executive Summary

### Probable Out-turn 2004/05

- 3.1 The deficit on the HRA is estimated to be around £116,000 for 2004/05. This compares with an original estimate (December 2003) that anticipated a **surplus** of £310,000. This equates to an **adverse variance** of approximately £426,000. This is mainly due to a reduction in rental income, increase in spending on repairs and an increase in the payment to the Government Pool. The reasons are explained further below.

## **Rental Income**

- 3.2 Budget briefing reports during the year did forecast a reduction in rental income (net of rent rebates) of approximately £175,000. This is due to the effect of previous year's council house sales reducing rental income by a greater amount compared to the original estimate.

## **Repairs**

- 3.3 The increase in spending amounts to around £145,000. The overall spending for 2004/05 of £2.65m is in line with that incurred during 2003/04 of £2.68m. The increase is due to a combination of:
- Additional work required in bringing about 30 long-term voids back into use.
  - General demand.
  - An increase in the schedule of rates charged by the Housing Maintenance DSO. These were updated as part of changing over to the new I.T. system, and better reflect those currently used in the building industry.

## **Payment to the Government Pool**

- 3.4 This has increased by around £100,000 due to a reduction in capital charges in the HRA, and a decrease in the long term borrowing rate that determines the amount of capital charges that are reimbursed via Subsidy.

## **Estimated HRA Reserve as 31<sup>st</sup> March 2005**

- 3.5 As previously reported, the HRA showed a favorable out-turn position in 2003/04 which increased the HRA reserve balance by £400,000. This can largely absorb the deficit in 2004/05. Consequently HRA balances at the end of 2004/05 are still anticipated to be around **£1.2m** as originally estimated (the current minimum balance is £1/2m).

## **Base Budget 2005/06**

- 3.6 The base estimate for 2005/06 shows a virtually break-even position. This is mainly due to greater rental income based on the Government's guideline increase of **4.03%** for 2005/06. This includes a real terms increase of 1.5% over and above the Government's inflation target.
- 3.7 In addition, council house sales appear to be slowing down, and the yearly figure is softening to around 85 in 2004/05. The previous 2 years have been well in excess of 100 and this was having an adverse affect on rental income to the HRA. This also helps to improve the situation in future years, as the base position is stronger.

## **Financial Projection to 2015**

- 3.8 The Council has recently approved to retain the housing stock following the Stock Options Review carried out during 2004. In addition, it was also resolved to keep under review the financial projections of the HRA.
- 3.9 Following this decision, the Council is now being directed to submit a business plan for the HRA to the Regional Government Office. This is likely to be for a period covering the next 10 years, i.e. to 2015.

- 3.10 Following the more recent review of the HRA's current income and expenditure for 2004/05 and the base budget for 2005/06, the financial projection undertaken in the stock options review has been updated to 2015. Compared to the stock options review, the overall financial position appears have slightly improved over this forecasting period.
- 3.11 This is reflected by the fact that the HRA is projected to fall into deficit **by 2010/11**, which is a year later than the previous projection. The increased level of reserves and additional rent can sustain the HRA **until 2009/10**, by which time reserve balances fall below the current minimum level of £1/2.
- 3.12 However, an increasing deficit in the longer-term shows that the **current** HRA is still not sustainable over the 10-year period with a **forecasted deficit** of around £2.5m by 2015.
- 3.13 Clearly and as planned, this position is being reviewed. It will be necessary for the Council to submit a business plan that demonstrates that the HRA is viable over this term and that service improvements can be delivered. This will involve substantial detailed modeling, in particular around the profiling of repair's expenditure.
- 3.14 Various options for working towards achieving a more sustainable HRA in the longer-term were highlighted in the Stock Options Report. On this issue, a proposal to set-aside £1m from the "debt free" receipts to supplement the HRA, is currently being considered by the Finance and Management Committee. This is part of the Council's overall budget proposals for the next financial planning period.
- 3.15 If this were approved, it would sustain the HRA's balances over the minimum amount of £1/2m by a further year **until 2012** based on current projections. However, there would still be a projected deficit of around £1.5m by 2015.

#### 4.0 Detail

4.1 The detailed figures are shown in 3 appendices, as follows:

- **Appendix 1** - a summary of each main income and expenditure head within the HRA for 2004/05 to 2014/15, together with the yearly surplus/deficit and level of general reserves.
- **Appendix 2** showing a detailed calculation of housing subsidy.
- **Appendix 3** – analysing the amount of central and departmental support costs charged to the HRA.

#### **Basis of 2005/06 Estimates (Base Budget)**

4.2 The budget for 2005/06 has initially been compiled at November 2004 prices. An allowance for inflation has then been added where this is considered unavoidable, to cover for price increases from November 2004 to March 2006. This calculates the cash limit estimate for 2005/06, in which budgets should be managed. The general assumptions built into estimates are as follows:

- Employee Costs – 2.95% (as per pay award settlement)
- Employers Pension Contributions – 11% (as per actuary notification)

- Repairs and Maintenance –5%
- Fuel – 3.5%
- Office Expenses (equipment, stationery, etc.) – cash limited
- Utilities – 3% (taking account of current volume/usage figures)
- Contracted/Agency Services – 5%
- Insurance Premiums – 5%
- All other Supplies and Services – 2.5%
- Grants and Reimbursements – 2.5%
- Fees, Charges, Rents, etc. – at least 2% overall

4.3 The estimates are also based on service levels in 2004/05 continuing, and include any full year effects of previous year's growth and capital expenditure. However, any non-recurring items have been removed.

### **Housing Subsidy (Appendix 2)**

- 4.4 The Council received a subsidy allocation for management and maintenance allowance per property in 2004/05 below the Government's formula. This potentially left the HRA approximately **£1/4m below** the Government's assessment in 2004/05.
- 4.5 For 2005/06, the Council's allowances have been moved towards the Formula and increased by **11%**. The Council will receive a total allowance in **2005/06 of £1,057** per property (£943 in 2004/05). However, the full formula allowance now stands at **£1,090 per property** for 2005/06.
- 4.6 The Government is effectively dampening down the Council's entitlement in order to protect other authorities that are currently over the Government's formula. If allowances were paid at the formula level, an **additional £115,000 per year** would be due in subsidy.
- 4.7 However, it should be noted that the HRA does not receive any subsidy, but actually makes a payment to the Government's National Pool in accordance with the re-distribution formula for social housing. The Council continues to be in "negative subsidy,"
- 4.8 Any additional amounts received in management and maintenance allowances only reduce the amount paid over to the national pool. In addition, in cash terms, the HRA does not receive an 11% increase, as the allowance is applied to the latest stock numbers. These have reduced by around 170 properties between the 2004/05 and 2005/06 settlements.
- 4.9 This is due to council house sales and the decommissioning of some sheltered accommodation units. In cash terms, allowances have been increased by around £217,000 (6%). However, after allowing for the increase in assumed rent income (£231,000) that is taken off the Council's entitlement, the overall subsidy settlement for 2005/06 is fairly neutral compared to 2004/05.

### **Proposed Rent Increase 2005/06**

- 4.10 In accordance with the Government's Rent Restructuring Policy, tenants are being moved towards a "Target Rent" in equal instalments until 2011/12. Next year (2005/06) will represent the 4th year this system has been in place.

- 4.11 The Government has notified the Council that actual and target rents for individual properties should be increased by **4.03%** for 2005/06 (a 2.53% inflation factor, plus a 1.5% real terms increase in overall rent).
- 4.12 After applying this increase, individual tenants will see their rent change depending on how their current rent compares to their Target. Most tenants will see an increase in rent due to the 4.03% increase above. However, some tenants will see lower increases due to their current rent being above the target, and a few tenants will still see a reduction in their current rent.
- 4.13 The **average increase for the Council is 4%**, which is around **£2 per week**. However, within this, there is a range of changes and these are summarised in the table below.

<b>Level of Increase</b>	<b>Number of properties affected</b>
Less than £1 per week (up to 2%)	400
Between £1 to £2 per week (up to 4%)	800
Between £2 and £3 per week (up to 6%)	1,900
Over £3 per week (highest is £3.68 per week – 7.5%)	100
<b>Total Properties</b>	<b>3,200</b>

- 4.14 In line with the rent restructuring formula and its effect on the Council, the lower increases relate to smaller and properties in sheltered accommodation. The higher increases relate to larger (3 and 4 bedroom) properties.
- 4.15 Although the Council does not have to follow the Government guideline for rents, the HRA would be penalised through the Subsidy system by not following the Government's policy. For example, where rents are set higher, the subsidy mechanism would withdraw grant for Rent Rebates. This would become an additional cost on the HRA.
- 4.16 Setting lower rents would not in itself reduce subsidy. However, the mechanism assumes that rent restructuring is being applied and builds this into assumed rent levels. Setting a lower level will therefore reduce overall rent to the HRA. In addition, the Council would not achieve rent harmonisation by 2012.

#### **Financial Projection to 2015 – Summary of Main Assumptions and Risks**

- 4.17 Clearly, a projection of this length does need to be treated with a certain degree of caution, and assumptions need to be made that will in the future most likely change. Factors such as housing subsidy and council house sales are outside the Council's control.
- 4.18 The current assumptions for 2006/07 onwards are set out below for the major categories of income and expenditure in the HRA.

- **Housing Repairs** – an increase of 5% in spending, to reflect the traditional higher than average inflation increases in the building/maintenance sector. However, it should be noted that the actual spending could be around £100,000 a year more than currently projected.

This is based on anticipated demand and reduction in future capital allowances, which could put pressure on the revenue budget. As highlighted in **paragraph 4.13**, this will need to be evaluated in detail as part of compiling the Business Plan.

- **General Management** – largely staffing costs, increased by 3% per year, assuming current service provision.
- **Net Cost of Rent Rebates** – being phased out in accordance with rent restructuring by 2012.
- **Rents** – target and actual rents increased by 3% per year. This is lower than recent increases under rent restructuring. Indications suggest that over the next 2 years, there may be a continuation of real term's increase in rents. However, this will be reviewed each year.
- **Council House Sales** – currently 84 per year, being reduced over the forecasting period to 24 per year by 2015. Clearly, this can be volatile and is subject to external factors outside the Council's control.
- **Management and Maintenance Allowances** – a 3% yearly increase. However, as highlighted earlier in the report, the HRA is still below the subsidy assessment by around £115,000 per year. This could be gradually phased in, although the housing subsidy system has traditionally be subject to change that can alter factors in other areas.
- **Supporting People Grant** – is very likely to come under on-going and closer scrutiny. The level of support could be reduced in accordance with national aspirations for efficiencies in this area. The longer-term projection assumes a freezing of the current base (income) budget.

## **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) 2005/06.

