

HOUSING PERFORMANCE IMPROVEMENT COMMITTEE – 10 DECEMBER 2003

CABINET – 17 DECEMBER 2003

HOUSING REVENUE ACCOUNT BUDGET 2004/05

REPORT OF THE DIRECTOR OF HEALTH AND HOUSING

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RECENT REFERENCES:

None

EXECUTIVE SUMMARY:

This report proposes a Housing Revenue Account budget for 2004/05. The budget has been prepared based on projections and targets included in the Housing Revenue Account Business Plan and takes account of the latest information from the Office of the Deputy Prime Minister (ODPM) on draft subsidy determinations for 2004/05. The budget is based on increasing average rents in line with the guideline rent set by the Office of the Deputy Prime Minister (ODPM) of 4.09%. When the impact of the third year of rent restructuring is taken into account, average increases for Winchester will be 3.98%.

RECOMMENDATIONS:

1. That Cabinet recommends that Council approve the rent increase for 2004/05 in line with the Government guideline, resulting in an average increase for City Council tenants of 3.98%, subject to consideration of comments from TACT.
2. That the Housing Revenue Account Budget for 2004/05 as detailed in Appendix 1, be agreed, subject to any final minor amendments required following announcement of the actual ODPM subsidy determinations in late December and subject to the final rent as detailed above (any material change will be reported to Cabinet in Jan 04).
3. That existing charges in relation to garage rents and service charges are increased by 2.5%.
4. That subject to the matter not being called in by Principal Scrutiny Committee a supplementary estimate of £90,000 be made to the Disabled Adaptations budget for 2003/04, to be funded from HRA balances.

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##### Report of the Director of Health and Housing

##### DETAIL:

#### 1 Introduction

- 1.1 2001/02 saw the implementation of resource accounting to the Housing Revenue Account (HRA), with the introduction of the Major Repairs Allowance to provide greater stability to repairs programmes and long term business planning to ensure more effective management of stock and housing services generally.
- 1.2 Report CAB442 dated 24 July 2002 included the Housing Revenue Account Business Plan for the period 2003 – 2033. The business plan was prepared in line with guidance from the ODPM. The projections in the Plan indicated that the Housing Revenue Account could be sustained over the period of the Plan subject to a number of assumptions. However, the Plan recognised the need for significantly improved management information in relation to the future needs of the stock, the proposals for social rent reform and the findings of the Best Value review of Housing Services.
- 1.3 The proposed budget included in this report is based on the projections and targets included in the HRA Business Plan and also take account of:
  - a) Draft determinations on subsidy from ODPM, including a guideline rent increase of 4.09% and a Major Repairs Allowance (MRA) of £3,200,597. It is not anticipated that the final determination will be change significantly. However, if material changes are made, these will be reported to Cabinet in January 2004.
  - b) Additional changes and service development proposals as detailed in paragraph 6.
  - c) The policy to maintain HRA balances at a level of at least £1.25 million and a repairs programme at or near to £6million.

#### 2 The Financial Regime and Guideline Rents

- 2.1 Final subsidy determinations will be published at the end of December. However, draft determinations have been received and the information contained in this report is based on those determinations. Changes in the final determinations will not be significant and are very unlikely to have a material effect on the proposals. Any such changes will be incorporated into the budget by adjusting the "Repairs Works" figure and will be reported as part of the Annual Maintenance Report in January 2004.

2.2 The draft subsidy for Winchester has been based on:

- a) An increase in management and maintenance allowances of £532,982 which takes account of changes to the method of calculation to these allowances.
- b) A decrease in the MRA per dwelling from £622.70 to £612.32 which is then applied to the stock as at 1.4.03 (5227 dwellings) giving an overall MRA of £3,200,597.
- c) A guideline rent increase of 4.09% (2.59% for inflation and an additional 1.5% as assumed in the Spending Review in 2002) and the effect of the third year of rent restructuring.
- d) The removal of rent rebates from the Housing Revenue Account.

### 3 Rent Rebates

3.1 The decision to move rent rebates to the General Fund accords with the principles of resource accounting and makes the Housing Revenue Account a true operating account. The net cost of rent rebates to the HRA is in the region of £200,000 annually. Whilst rebates are generally funded through Housing subsidy, full subsidy was not paid on backdated payments and overpayment of rebates, thus resulting in a net cost to the HRA.

3.2 With rebates moving to the General Fund, this overall cost moves with it. The draft determination allows authorities to transfer a payment from the HRA to the General Fund for a period of two years to assist with meeting this cost. For Winchester, this payment has a limit of £46,000 in 2004/05 and £23,000 in 2005/06. The budget in Appendix A reflects this. Representations will be made to the ODPM requesting that this figure be amended to nearer to the true cost as reflected in the audited accounts for 2002/03. If this is not granted, the HRA will benefit significantly from this change, at the expense of the General Fund. Whatever the final determination is, it is clear that the HRA will benefit in the long term as this transfer is limited to the two year period.

### 4 Revised Housing Revenue Account 2003/04

4.1 The revised HRA for 2002/03 as detailed in Appendix 1 column 4 and Appendix 2 column 4 takes account of a number of changes including:

- a) Reduced salary costs for Sheltered Housing – The decision to cover the management of some smaller sheltered schemes by peripatetic managers or mobile wardens has resulted in a saving in this area of approximately £60,000 in the current year.
- b) An increase in the cost of disabled adaptations – Demand on this service continues to grow and year-end expenditure is projected at £300,000 against an original budget of £210,000. It is recommended that the difference be met by a virement of an equivalent sum from HRA balances.

4.2 The net effect of these changes is detailed in Appendix 2 and increases the net deficit for 2003/04 by £30,000 to £659,200, resulting in projected year-end balances at March 2004 of £1,643,821.

## 5 Housing Revenue Account Budget 2004/05

5.1 The budget detailed in Appendix 1 column 5 has a net deficit of £385,500 compared to £629,200 for 2003/04. This budget will result in a year-end balance at March 2005 of £1,258,321. The budget includes the growth items detailed in paragraph 6 below, assumes a guideline rent increase and also includes the additional changes detailed below:

- a) Salaries for Sheltered Staff – The Sheltered housing budget has been reduced to take account of reduced staff numbers at schemes. This has been achieved by incorporating some smaller schemes into peripatetic arrangements or monitoring them directly from Central Control. This approach will be subject to further review in 2004. The net effect, taking into account increased costs of central control staff is approximately £30,000.
- b) Options Appraisal – The £50,000 included in the budget for 2003/04 has also been included in the budget for 2004/05 to reflect the timetable for the project which now extends to December 2004 (making a total provision of £100k over two years). The provision will be used to meet the costs of detailed investigations of all options and consultancy support to both the Council and tenants.
- c) Salary costs and pay award – This has resulted in additional costs in the region of £45,000.
- d) A reduction in the maintenance programme of £45,000. The budget principles detailed in paragraph 1.3 above of maintaining a repairs programme of £6m and balances at a minimum of £1.25m are both met by the proposed budget. However, if existing services are to be maintained and all growth detailed in paragraph 5 below is to be funded, this can only be achieved by reducing the current revenue maintenance provision, albeit whilst still achieving the £6m target (£3.2m MRA + £2.9m revenue repairs).
- e) An increase in charges in relation to garage rents and service charges of 2.5% in line with ODPM guideline information. The Service Charges Informal Member/Officer Working Group will be meeting early in the New Year to review existing policies relating to the provision of cleaning services in communal blocks and may recommend further changes. If this is the case, a further report on the implications will be brought to Cabinet.

## 6 Additional Growth Items

6.1 A number of growth items are proposed for 2004/05 and if approved, will need to be incorporated into the base budget. In total, they amount to additional ongoing costs of £265,000. The overall effect on balances if these growth items are approved is indicated in Appendix 3. The proposed on going growth includes:

- a) Community Wardens - £ 30,000 – The Council is currently considering the appointment of two “Community Wardens” to work on key estates to address a number of issues including anti social behaviour, environmental improvements, community safety and community development. The initiative will seek to address matters identified through the recent Community Planning study. The two posts will cost in the region of £60,000 (including on costs, vehicles etc) and funding is sought jointly from the Council’s General

Fund and HRA. Similar initiatives in other areas are currently under review to identify the most appropriate role for Winchester.

- b) Land Registration - £6,000 – The Land Registry is encouraging councils to register their unregistered land holdings and it has been indicated that the Government will make it a requirement for councils to register their land holdings by 2010. It is planned to provide a budget from 2004/05 to cover the cost of fees so that the work can be phased over the next five years. The bulk of the Council's land holdings are not registered and this limits powers to prevent encroachment, third party use etc. It is proposed to allocate £6,000 from the HRA to cover the cost of registering Housing land. A similar provision is being made in the General Fund. The figure is very much an estimate at this stage and may require revision during the year.
- c) Head of Landlord - £39,000 – A report to the Personnel Committee on 10/11/03 proposed the establishment of a "Landlord Team" to manage all HRA issues with effect from April 2004. Currently, this work is spread over 4 divisions and this has to some extent prevented the implementation of well co-ordinated and coherent strategies for the Landlord service. The approach will provide a clearer management structure and will see the appointment of a "Head of Landlord Services" post. The net cost to the HRA of this proposal is £39,000 per annum.
- d) Disabled Adaptations £ 90,000 + £15,000 – The cost of Disabled Adaptations has been increasing over recent years and it is projected that the annual cost of this demand led work is now in the region of £300,000. The current budget provision is £210,000 and so a virement from the repairs budget of £90,000 is required to cover this increase. Also, the whole process of how the Council carries out these works is currently under review. £25,000 was included in the budget for the current year. However, the review is likely to conclude that a full time occupational therapist should be appointed at an estimated cost of £40,000. Therefore, it will be necessary to increase provision by a further £15,000 to meet this cost. This will be subject to a detailed report on the findings of the review later in the year.
- e) Grounds Maintenance £18,000 – The Council's Community Services Department administer grounds maintenance services as "client agent" for all Council services including Housing. Very limited resources in that team have resulted in an inability to meet service demands. It is therefore proposed to appoint an additional Grounds Client officer, part funded from the HRA. The funding will need to be subject to the majority of the new officer's time being committed to work on land traditionally regarded as "Housing land" as this is jointly funded from the HRA and General Fund to reflect the proportion of stock lost through the "Right to Buy" process. The quality of the service received will be managed through a service level agreement.
- f) Supporting People - £25,000 – The introduction of the Supporting People regime this year has resulted in a significant amount of administrative work on Housing staff, not least from the requirement to produce very detailed performance returns for each sheltered scheme on a quarterly basis, an annual quality assessment and monthly returns on all tenancy changes within schemes. It is now clear that a minimum of one full time administrative co-ordinator is required to undertake this work. Costs will be in the region of

£25,000. Income was received through Supporting People grant to cover administration in the current year and this growth.

- g) Heating Appliance Contract - The Nationwide Contract is due for renewal next year. It has not been possible to extend the existing contract and projections indicate that any new contract could result in increased costs. Any increase would result in additional cost to the HRA Repairs programme. The extent of this additional cost will depend on final tender submissions. At this stage, it should be noted that any increase will result in an additional burden on the HRA.

## 7 Funding the Growth Items

- 7.1 The growth items detailed above will be partly offset by reduced salary costs as detailed in paragraph 5.1 a) above. It is proposed to incorporate the cost of any increases in the Heating Appliance contract costs within the existing repairs programme. All other costs will need to be added to the base budget and met by rental income, subsidy and balances.

## 8 The Rent Increase for 2004/05

- 8.1 In the light of the draft subsidy determination for the HRA for 2004-05, the subsidy assumes that rents will rise by more than 4.09%.
- 8.2 2004-05 will be the third year for rent restructuring, under which local authorities and registered social landlords are expected to move their rents towards a standard formula rent based on relative county earnings and relative property values.
- 8.3 A notional formula rent calculated for each property for 2000 is increased cumulatively each year by inflation plus a varying amount: 4.5% for 2001-02, 3.5% for 2002-03, 3.25% for 2003-04 and 4.09% for 2004-05. These increases, it is noted, are higher than percentage increases applied locally for Winchester. A proportion of the difference between the formula rent calculated in this way must be added to (if formula rent is higher) or deducted from (if formula rent is lower) the current actual rent plus local percentage increase. For 2004-05 the proportion of the difference to add or deduct will be 1/8. For 2005-06 it will be 1/7 of the difference at that point, until the whole of any remaining difference between local and formula rent will have to be applied in 2011-12 - unless the current framework is changed.
- 8.4 Guideline rents are set by Government along the way to full implementation of the restructured rents and penalties are to be imposed through the subsidy regime if the guideline rents are not followed.
- 8.5 Under Rent Restructuring rules, councils are restricted in changing rent levels by a cap which limits individual rent rises to inflation (2.59% for the past year) plus 1/2 % plus or minus £2.
- 8.6 Therefore, it is recommended that the rent increase for 2004/05 be 1/8<sup>th</sup> of the difference between the notional target rent (which has been increased by 4.09%) and the 2003/04 rents, limited by the cap detailed in 7.5 above. **This results in an average 2004/05 rent increase for Winchester of 3.98%.** The impact for Winchester tenants for 2004 in terms of individual percentage rises, to the nearest whole percentage point is as follows:

Impact for 2004 to nearest whole percentage point	no of tenants	%
0%	79	1.51%
1%	349	6.67%
2%	455	8.70%
3%	945	18.07%
4%	1208	23.10%
5%	792	15.15%
6%	758	14.50%
7%	479	9.16%
8%	142	2.72%
9%	22	0.42%

8.7 The below guideline increase of 2% set this year was the first increase lower than inflation for many years and was agreed as a result of the high level of balances at the end of 2002/03. However, the 2003/04 HRA is operating at a net deficit in excess of £600,000. Whilst the proposed budget for 2004/05 reduces that deficit, it does take balances down to their current minimum limit and action will be required over the next year to address this. Therefore, a below guideline increase is not recommended, as this would not only result in a growing gap between target rents and actual rents, but would also reduce balances at a time when the whole service is subject to a detailed appraisal.

8.8 This time last year, consideration was given to setting differential rents for those residents in accommodation specifically designated for older persons. This was aimed at addressing concerns with the rent restructuring formula. This approach could be reconsidered this year. However, the Government's review of rent restructuring is currently underway and it may be more appropriate to lobby the review to address the issue rather than developing a local solution in advance of the review's conclusion.

## 9 Options Appraisal

9.1 A key task for both the preparation of the HRA Business Plan and for the Options Appraisal project currently underway will be to review in detail the current and future financial position and to prepare detailed 30 year financial projections for the HRA.

9.2 Existing projections indicate that despite currently operating at a deficit, the HRA can be sustained in the long term provided operational efficiencies are achieved in the next two to three years. This will include reducing management costs and overhead costs, further de-pooling service charges from rent (particularly for communal cleaning) maximising income through subsidy and improved performance.

9.3 To assist in the preparation of long term projections, it is proposed to commission consultancy support to prepare a position statement analysing the current financial position and appraising the position against each of the main options for the future delivery of Housing services.

9.4 The Council's existing treasury management consultants, Butlers, are well respected in this field and are carrying out similar work for other councils. It is therefore

proposed to negotiate with them an extension to their existing agreement to cover this work in accordance with Contract Procedure Rule 3.1 b. The report will be available by the end of January 2004.

## 10 Conclusions

- 10.1 The proposed budget for 2004/05 seeks to maintain services at current levels and also recommends a number of additional growth items aimed at improving the Housing Service overall. These growth items can be accommodated within the budget whilst still complying with the key principles for the HRA (£6m repairs programme, maintaining service levels and keeping balances above £1.25m). Despite the removal of Rent Rebates from the HRA and a favourable increase in management and maintenance allowances, the HRA for 2004/05 will still be operating at a deficit. Further detailed analysis is required of the impact of subsidy changes to ensure that the full effect is incorporated into long-term budget and business plan projections. This further review will be completed in January 2004 as part of preparing the Business Plan for 2004/05.

## OTHER CONSIDERATIONS:

### 11 CORPORATE STRATEGY (RELEVANCE TO):

- 11.1 The proposals accord with the principles of making the best use of all available resources by continued clear financial planning.

### 12 RESOURCE IMPLICATIONS:

- 12.1 As detailed in the body of the report

### 13 TACT COMMENT:

- 13.1 A joint meeting of the afternoon and evening group of TACT has been arranged for 3 December 2003. Tact's comments concerning this paper will be prepared after that meeting and circulated as a late agenda item for the meeting.

## BACKGROUND DOCUMENTS:

Working papers held in the Health and Housing Department and Finance Department

HRA Business Plan 2003-20033

## APPENDICES:

- 1 HRA Service Summary 2004/05
- 2 HRA Subjective Summary 2004/05
- 3 HRA 2004/05 – Analysis of Change from 2003/04



**HOUSING REVENUE ACCOUNT BUDGET 2004/05**

<b>Service summary</b>	<b>2002/03 Actual</b>	<b>2003/04 Original Budget</b>	<b>2003/04 Revised Budget</b>	<b>2004/05 Original Budget</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>
<u>Service</u>	£	£	£	£
<b>a) Housing management - General</b>	1,864,276	2,100,000	2,100,000	2,198,320
Housing management - Special :				
<b>b) - Sheltered housing</b>	786,934	906,430	846,430	902,170
<b>c) - Communal services</b>	88,756	82,630	82,630	86,650
<b>d) - Homelessness</b>	(17,210)	(47,680)	(47,680)	(38,840)
<b>e) - Estate maintenance</b>	189,362	171,040	171,040	189,040
<b>f) - Miscellaneous works</b>	595,510	497,590	587,590	592,760
<b>g) Total housing management - Special</b>	<b>1,643,352</b>	<b>1,610,010</b>	<b>1,640,010</b>	<b>1,731,780</b>
<b>h) Repairs - administration</b>	964,634	1,064,660	1,064,660	1,157,770
<b>i) Repairs - works</b>	2,648,175	2,985,000	2,985,000	2,940,000
<b>j) HRA housing benefits</b>	6,854,685	7,250,640	7,250,640	
<b>k) Item 8</b>	4,105,461	4,026,560	4,026,560	3,749,830
<b>l) Dwelling rents</b>	(14,581,755)	(15,217,780)	(15,217,780)	(15,945,420)
<b>m) Garage rents</b>	(403,968)	(451,260)	(451,260)	(429,990)
<b>n) Sheltered charges</b>	(738,920)	(741,160)	(741,160)	(726,010)
<b>o) Other income</b>	(247,357)	(269,000)	(269,000)	(293,000)
<b>p) Total rents and other income</b>	<b>(15,972,000)</b>	<b>(16,679,200)</b>	<b>(16,679,200)</b>	<b>(17,394,420)</b>
<b>q) HRA subsidy</b>	(2,569,159)	(1,728,470)	(1,728,470)	6,002,220
<b>r) Net HRA -Deficit/(Surplus)</b>	<b>(460,576)</b>	<b>629,200</b>	<b>659,200</b>	<b>385,500</b>

**HOUSING REVENUE ACCOUNT BUDGET 2004/05****Subjective summary**

	2002/03	2003/04	2003/04	2004/05
	Actual	Original Budget	Revised Budget	Original Budget
(1)	(2)	(3)	(4)	(5)
<u>Detail</u>				
	£	£	£	£
a) Employees	2,345,123	2,671,930	2,611,930	2,766,330
b) Premises	3,645,172	3,837,380	3,927,380	3,855,570
c) Transport	126,950	165,060	165,060	147,760
d) Supplies and services	7,200,894	7,721,780	7,721,780	485,820
e) Third party payments	111,002	115,750	115,750	115,750
f) Capital financing	4,257,813	4,204,500	4,204,500	3,961,590
g) Management overheads	1,266,370	1,341,410	1,341,410	1,519,880
h) Expenditure	18,953,325	20,057,810	20,087,810	12,852,700
i) Fees and charges	(18,979,041)	(19,001,840)	(19,001,840)	(12,002,660)
j) Recharges to services	(138,402)	(218,140)	(218,140)	(218,140)
k) Income	(19,117,443)	(19,219,980)	(19,219,980)	(12,220,800)
l) Transfers	(296,458)	(208,630)	(208,630)	(246,400)
m) <b>Net HRA-Deficit/(Surplus)</b>	<b>(460,576)</b>	<b>629,200</b>	<b>659,200</b>	<b>385,500</b>

**HOUSING REVENUE ACCOUNT BUDGET 2004/05****WORKING BALANCE**

a) Opening Balance @ 1/4/03 (Actual)	£ (2,303,021)
b) Add Projected Deficit 2003/04	659,200
c) <b>Projected Working Balance @ 31/3/2004</b>	<b><u>(1,643,821)</u></b>
d) Add Projected Deficit 2004/05	385,500
e) <b>Projected Working Balance @ 31/3/2005</b>	<b><u>(1,258,321)</u></b>

**HOUSING REVENUE ACCOUNT BUDGET 2004/05****Analysis of change from 2003/04 budget to 2004/05 budget**

	2003/04 Original	Inflation	2004/05 Proposals	Overhead Changes	Other Changes	2004/05 Budget
(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Service</u>						
	£	£	£	£		
a) Housing management - General	2,100,000	26,800	100,000	53,100	(81,580)	2,198,320
Housing management - Special :						
b) - Sheltered housing	906,430	16,370		900	(21,530)	902,170
c) - Communal services	82,630			4,020		86,650
d) - Homelessness	(47,680)			6,680	2,160	(38,840)
e) - Estate maintenance	171,040		18,000			189,040
f) - Miscellaneous works	497,590	8,800	105,000	(8,940)	(9,690)	592,760
g) Total housing management - Special	1,610,010	25,170	123,000	2,660	(29,060)	1,731,780
h) Repairs - works	2,985,000				(45,000)	2,940,000
i) Repairs administration	1,064,660	22,620		29,060	41,430	1,157,770
j) HRA housing benefits	7,250,640				(7,250,640)	
k) Item 8	4,026,560				(276,730)	3,749,830
l) Dwelling rents	(15,217,780)		(727,640)			(15,945,420)
m) Garage rents	(451,260)		21,270			(429,990)
n) Sheltered charges	(741,160)		15,150			(726,010)
o) Other income	(269,000)		(24,000)			(293,000)
p) Total rents and other income	(16,679,200)		(715,220)			(17,394,420)
q) HRA subsidy	(1,728,470)				7,730,690	6,002,220
r) <b>Net HRA-Deficit/(Surplus)</b>	629,200	74,590	(492,220)	84,820	89,110	385,500