

HOUSING PERFORMANCE IMPROVEMENT COMMITTEE – 7 DECEMBER 2004

CABINET – 15 DECEMBER 2004

HOUSING REVENUE ACCOUNT BUDGET 2005/06

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 2005/06. 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 2005/06. 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 4.02%. When the impact of the third year of rent restructuring is taken into account, average increases for Winchester will be 4.66%.

RECOMMENDATIONS:

That Cabinet be requested to approve:

1. That Council sets the rent increase for 2005/06 in line with the Government guideline, resulting in an average increase for City Council tenants of 4.66%, subject to consideration of comments from TACT.
2. That the Housing Revenue Account Budget for 2005/06 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 05).
3. That existing charges in relation to garage rents and service charges are increased by 3.1%.
4. That the industrial units at Winnall be transferred from HRA non operational assets to the General Fund as detailed in paragraph 3.1.c).

HOUSING PERFORMANCE IMPROVEMENT COMMITTEE – 7 DECEMBER 2004CABINET – 15 DECEMBER 2004HOUSING REVENUE ACCOUNT BUDGET 2005/06Report of The Director of Health and HousingDETAIL:1 Introduction

- 1.1 The Housing Revenue Account (HRA) is a ring-fenced budget which funds all the Council's Housing Landlord services. The budget is funded by Housing rents and other income, offset by "negative Subsidy", which is a payment back to government to reflect what they consider to be the difference between the rent we collect and what providing our services should cost. In councils where the level of rent collected is less than the assessed cost of services, the government pay subsidy (funded from the negative subsidy collected from councils such as Winchester).
- 1.2 The HRA Business Plan for 2004 to 34 has been assessed by the Government Office for the South East as "Fit for Purpose" and includes long term financial projections that indicate that it should be possible to maintain a balanced HRA over the next 10 years, subject to any subsidy rule changes.
- 1.3 However, the current Options Appraisal project has also identified that the cost of meeting the Decent Homes Standard by 2010 and continuing to maintain the current service level will amount to £400,000 more than the current budget per annum up to 2010 and an estimated further £1 million per annum after that time. The budget set out in this report does not address that shortfall but does ensure that the HRA returns to a balanced budget (it has operated at a deficit in recent years) with healthy reserves. The task of how to resource the repairs and renewal programme to ensure it maintains current standards and meets the Decent Homes standard by 2010 will commence in January and will be led by the Housing Options Steering Group, culminating in a proposed programme being considered at the March meeting of the Housing Performance Improvement Committee.
- 1.4 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 notional guideline rent increase of 4.02% on existing target rents set under rent restructuring and a Major Repairs Allowance (MRA) of £3,246,000. 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 2005.
  - b) Additional changes to service funding, including transferring responsibility and funding for certain services to the Housing General Fund from April 2005, as detailed in paragraph 3.
  - 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.

1.5 Whilst management and maintenance allowances have increased, notional rent levels and capital changes have resulted in an increase in the level of negative subsidy payable in 2005/06 of £524,480. The projected increase in actual rents amounts to £800,670 and this along with changes detailed in paragraph 3 below is sufficient to ensure the 2005/06 operates at a small surplus.

## 2 Revised Housing Revenue Account 2004/05

2.1 The revised HRA for 2004/05 as detailed in Appendix 1 column 4 and Appendix 2 column 4 takes account of a number of changes including:

- a) Capital Financing – Charges have been amended to reflect actual outturn information from 2003/04. The original budget was based on estimates at this time last year.
- b) Rental Income – This has been adjusted to take account of current projections for void property and right to buys. A reduction in rental income (£56,000) has been offset by an increase in projected Supporting People grant (£220,000).
- c) Various minor changes to reflect changes to salaries and supplies budgets.
- d) An increase in provision for insurance to ensure adequate cover is maintained across the service and to increase provision to the Insurance reserve (to fund insurance work below the excess agreed with the Council's insurers). This has been based on an independent assessment of need by actuarial advisers and has resulted in costs to the HRA increasing by over £140,000 in both this year and in 2005/06. However, scope to reduce costs currently met by the maintenance budget for such work should be possible and will be addressed in the coming months.

2.2 The net effect of these changes is detailed in Appendix 1 and 2 and increases the net deficit for 2004/05 by £80,310 to £280,470, resulting in projected year-end balances at March 2005 of £1,319,752.

## 3 Housing Revenue Account Budget 2005/06

3.1 The budget detailed in Appendix 1 column 5 has a net surplus of £2,910 compared to a deficit of £280,470 for 2004/05. This budget will result in a year-end balance at March 2006 of £1,322,622. The budget takes account of the additional changes detailed below:

- a) Central Control – The Housing best Value Review Action Plan set targets for this service to be transferred to the General Fund. Whilst Central Control provides essential support to Sheltered Housing, it also provides a range of services to private households, other Housing providers and council departments. It is therefore recommended that the service be transferred to the General Fund with effect from April 2005. All costs for the service are recharged to customers and the HRA will still fund the major element of the service. Costs to the HRA in future years will be reviewed as part of the Sheltered Housing review currently being undertaken.
- b) Managing the Joint Housing Register and Allocations – The management of the Joint Housing Register, of which the Council is a partner, is currently

performed by the Council's Housing Needs team. This team also manage allocations to Council properties, mutual exchanges, transfers and home visits in respect of those potential moves. Until now, the HRA has funded the JHR (apart from small contributions negotiated with partners). However, this is very much a strategic housing function and it is therefore recommended to transfer it to the general fund with effect from April 05. The services provided to the HRA by this team will be recharged through a service level agreement. Following a review of staff time spent on each of these activities, the net cost of transferring them to the general fund totals £60,000. This increased cost to the general fund will be offset by the transfer on income in relation to industrial sites as detailed in 5.1. c) below.

- c) Non operational assets – Report HO45 dated 9 November 2004 recommended that non operational assets currently held by the HRA but which have no relevance to housing (namely the industrial units at Winnall) should be transferred to the general fund. This budget has been prepared taking account of this. The change results in a loss of potential income to the HRA of £90,000. The justification for this change was to move such assets outside of the restrictions now placed on “housing” assets by current capital financial regulations. To ensure that there is no net loss or gain to either the HRA or the General Fund, it is also recommending that corresponding costs be transferred to the general fund also taking the opportunity to address issues where the HRA has potentially been funding work of a general nature more appropriate to the general fund. This includes the contribution to the neighbourhood warden service (£30,000) and the costs of administering the JHR (£60,000) as detailed in 5.1.b) above.
- d) Options Appraisal – The £50,000 included in the base budget for the previous two years has not been included in 2005/06.
- e) Asbestos Survey – Provision for the funding of temporary staff to undertake an asbestos survey in the current year will not continue in 2005/06, resulting in a further £30,000 reduction in the budget.

3.2 The changes detailed in 3.1 a), b) and c) above are all in accordance with HRA accounting rules. However, for completeness, the changes the Council auditors will be asked to confirm they have no objections to the changes.

#### 4 The Rent Increase for 2004/05

- 4.1 In the light of the draft subsidy determination for the HRA for 2005/06, the subsidy assumes that rents will rise by 4.02%.
- 4.2 2005/06 will be the fourth 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.
- 4.3 A notional formula rent calculated for each property for 2000 is increased cumulatively each year by inflation plus a varying amount: 3.5% for 2002/03, 3.25% for 2003/04, 4.09% for 2004/05 and 4.02% for 2005/06. 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 2005/06 the proportion of the difference to

add or deduct will be 1/7. For 2006/07 it will be 1/6 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.

- 4.4 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.
- 4.5 Under Rent Restructuring rules, councils are restricted in changing rent levels by a cap which limits individual rent rises to inflation (3.1% for the past year) plus 1/2 % plus or minus £2.
- 4.6 Therefore, it is recommended that the rent increase for 2005/06 be 1/7<sup>th</sup> of the difference between the notional target rent (which has been increased by 4.02%) and the 2004/05 rents, limited by the cap detailed in 7.5 above. This results in an average 2005/06 rent increase for Winchester of 4.66%. Actual increases rise from 0.42% to 8.76%. 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 | %     |
|---|---------------|-------|
| 1%  | 175           | 3.37  |
| 2%  | 238           | 4.59  |
| 3%  | 451           | 8.70  |
| 4%  | 900           | 17.35 |
| 5%  | 1173          | 22.62 |
| 6%  | 872           | 16.81 |
| 7%  | 1018          | 19.63 |
| 8%  | 325           | 6.27  |
| 9%  | 34            | 0.66  |

**(to be completed)**

- 4.7 In previous years, options for above or below guideline rent increases have been considered. However, the restrictions of the rent restructuring and subsidy process in effect provide little flexibility with setting rents. We have the option to change rents of any property type by 5% to reflect local conditions (subject to the inflation +1/2% + £2 maximum increase rule). However, subsidy assumes that rents taking account of existing target rents and guideline increases. Any below guideline increase effectively reduces funds available for the service. In light of the current financial pressures (the options project highlighting the need to increase current investment by £400,000), any below guideline increase would be very difficult to justify.

**5 Conclusions**

- 5.1 The proposed budget for 2005/06 seeks to maintain services at current levels and also ensure that the budget moves out of a deficit position with reducing balances. However, the budget remains very sensitive to future changes and scope to identify exactly how the Council can resource the additional £400,000 required in future years will be challenging. The review commencing in the new year will need to

consider how best to reduce void levels, make effective use of the insurance fund and reduce support costs as well as considering other options such as additional borrowing, future service levels and improved procurement and partnership working.

OTHER CONSIDERATIONS:

6 CORPORATE STRATEGY (RELEVANCE TO):

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

7 RESOURCE IMPLICATIONS:

7.1 As detailed in the body of the report

8 TACT COMMENT:

8.1 A joint meeting of the afternoon and evening group of TACT has been arranged for 1 December 2004. 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 2004-34

APPENDICES:

- 1 HRA Service Summary 2005/06
- 2 HRA Subjective Summary 2005/06
- 3 HRA 2004/05 – Analysis of Change from 2005/06

**HOUSING REVENUE ACCOUNT BUDGET 2005/06**

| <b>Service summary</b>                | <b>2003/04<br/>Actual</b> | <b>2004/05<br/>Original<br/>Budget</b> | <b>2004/05<br/>Revised<br/>Budget</b> | <b>2005/06<br/>Original<br/>Budget</b> |
|---------------------------------------|---------------------------|--|---------------------------------------|--|
| <b>(1)</b>                            | <b>(2)</b>                | <b>(3)</b>                             | <b>(4)</b>                            | <b>(5)</b>                             |
| <u>Service</u>                        |                           |  |                                       |  |
|                                       | £                         | £                                      | £                                     | £                                      |
| a) Housing management - General       | 2,172,085                 | 2,332,290                              | 2,411,690                             | 2,231,010                              |
| Housing management - Special :        |                           |  |                                       |  |
| b) - Sheltered housing                | 806,401                   | 902,170                                | 904,230                               | 1,226,400                              |
| c) - Communal services                | 92,162                    | 86,650                                 | 86,720                                | 86,370                                 |
| d) - Homelessness                     | (44,545)                  | (38,840)                               | (40,960)                              | (51,390)                               |
| e) - Estate maintenance               | 222,159                   | 189,040                                | 189,040                               | 188,310                                |
| f) - Miscellaneous works              | 645,834                   | 631,210                                | 654,480                               | 451,740                                |
| g) Total housing management - Special | <u>1,722,010</u>          | <u>1,770,230</u>                       | <u>1,793,510</u>                      | <u>1,901,430</u>                       |
| h) Repairs - administration           | 1,135,155                 | 1,157,770                              | 1,090,550                             | 1,105,160                              |
| i) Repairs - works                    | 2,764,480                 | 2,940,000                              | 2,940,000                             | 2,930,000                              |
| j) HRA housing benefits               | 6,813,748                 |  | 82,640                                | 60,930                                 |
| k) Capital Financing                  | 4,060,819                 | 3,754,830                              | 3,860,190                             | 3,937,850                              |
| l) Dwelling rents                     | (15,233,175)              | (15,945,420)                           | (15,889,170)                          | (16,689,840)                           |
| m) Garage rents                       | (413,225)                 | (429,990)                              | (429,470)                             | (442,350)                              |
| n) Sheltered charges                  | (211,805)                 | (726,010)                              | (336,430)                             | (346,520)                              |
| o) Supporting People                  | (628,301)                 |  | (609,330)                             | (656,050)                              |
| p) Other income                       | (270,651)                 | (277,000)                              | (294,000)                             | (219,300)                              |
| q) Total rents and other income       | <u>(16,757,158)</u>       | <u>(17,378,420)</u>                    | <u>(17,558,400)</u>                   | <u>(18,354,060)</u>                    |
| r) HRA subsidy                        | (1,192,084)               | 5,623,460                              | 5,660,290                             | 6,184,770                              |
| s) Transfer re Pension Reserve        | (16,256)                  |  |                                       |  |
| t) <b>Net HRA -Deficit/(Surplus)</b>  | <u>702,798</u>            | <u>200,160</u>                         | <u>280,470</u>                        | <u>(2,910)</u>                         |

**HOUSING REVENUE ACCOUNT BUDGET 2005/06**

| <b>Subjective summary</b>           | <b>2003/04</b> | <b>2004/05</b>         | <b>2004/05</b>        | <b>2005/06</b>         |
|-------------------------------------|----------------|------------------------|-----------------------|------------------------|
|                                     | <b>Actual</b>  | <b>Original Budget</b> | <b>Revised Budget</b> | <b>Original Budget</b> |
|                                     | <b>(1)</b>     | <b>(2)</b>             | <b>(4)</b>            | <b>(5)</b>             |
| <u>Detail</u>                       |                |                        |                       |                        |
|                                     | £              | £                      | £                     | £                      |
| a) Employees                        | 2,841,407      | 2,938,750              | 2,977,190             | 2,462,520              |
| b) Premises                         | 3,843,440      | 3,855,570              | 3,917,360             | 3,950,240              |
| c) Transport                        | 188,140        | 147,760                | 148,520               | 146,980                |
| d) Supplies and services            | 7,242,258      | 455,820                | 526,460               | 305,110                |
| e) Third party payments             | 106,738        | 115,750                | 115,750               | 115,750                |
| f) Transfer payments                | 244            |                        |                       |                        |
| g) Capital financing                | 4,250,192      | 3,966,590              | 4,153,080             | 4,260,800              |
| h) Management overheads             | 1,381,519      | 1,549,880              | 1,495,540             | 1,821,960              |
| h) Expenditure                      | 19,853,939     | 13,030,120             | 13,333,900            | 13,063,360             |
| i) Fees and charges                 | (18,648,437)   | (12,335,180)           | (12,541,630)          | (12,682,980)           |
| j) Internal contributions to GF     | (30,860)       | (30,240)               | (30,240)              | (30,240)               |
| k) Recharges to services            | (231,690)      | (218,140)              | (246,510)             | (85,620)               |
| l) Income                           | (18,910,986)   | (12,583,560)           | (12,818,380)          | (12,798,840)           |
| m) Transfers                        | (240,155)      | (246,400)              | (235,050)             | (267,430)              |
| <b>n) Net HRA-Deficit/(Surplus)</b> | <b>702,798</b> | <b>200,160</b>         | <b>280,470</b>        | <b>(2,910)</b>         |

**HOUSING REVENUE ACCOUNT BUDGET 2005/06**

| <b><u>WORKING BALANCE</u></b>                   |  | £                         |
|---|--|---------------------------|
| a) Opening Balance @ 1/4/04 (Actual)            |  | (1,600,222)               |
| b) Add Projected Deficit 2004/05                |  | 280,470                   |
| <b>c) Projected Working Balance @ 31/3/2005</b> |  | <b><u>(1,319,752)</u></b> |
| d) Add Projected Surplus 2005/06                |  | (2,910)                   |
| <b>e) Projected Working Balance @ 31/3/2006</b> |  | <b><u>(1,322,662)</u></b> |



**Analysis of change from 2004/05 budget to 2005/06 budget**

|                                       | 2004/05<br>Original | Inflation | 2005/06<br>Proposals | Overhead<br>Changes | Other<br>Changes | 2005/06<br>Budget |
|---------------------------------------|---------------------|-----------|----------------------|---------------------|------------------|-------------------|
| (1)                                   | (2)                 | (3)       | (4)                  | (5)                 | (6)              | (7)               |
| <u>Service</u>                        |                     |           |                      |                     |                  |                   |
|                                       | £                   | £         | £                    | £                   |                  |                   |
| a) Housing management - General       | 2,332,290           | 25,310    |                      | 213,760             | (340,350)        | 2,231,010         |
| Housing management - Special :        |                     |           |                      |                     |                  |                   |
| b) - Sheltered housing                | 902,170             | 16,860    |                      | 255,010             | 52,360           | 1,226,400         |
| c) - Communal services                | 86,650              | 1,390     |                      | 240                 | (1,910)          | 86,370            |
| d) - Homelessness                     | (38,840)            | 750       |                      | (14,800)            | 1,500            | (51,390)          |
| e) - Estate maintenance               | 189,040             |           |                      |                     | (730)            | 188,310           |
| f) - Miscellaneous works              | 631,210             |           |                      | 132,500             | (311,970)        | 451,740           |
| g) Total housing management - Special | 1,770,230           | 19,000    |                      | 372,950             | (260,750)        | 1,901,430         |
| h) Repairs - works                    | 2,940,000           |           |                      |                     | (10,000)         | 2,930,000         |
| i) Repairs administration             | 1,157,770           | 23,290    |                      | (51,720)            | (24,180)         | 1,105,160         |
| j) HRA housing benefits               |                     |           |                      |                     | 60,930           | 60,930            |
| k) Item 8                             | 3,754,830           |           |                      | 1,180               | 181,840          | 3,937,850         |
| l) Dwelling rents                     | (15,945,420)        |           |                      |                     | (744,420)        | (16,689,840)      |
| m) Garage rents                       | (429,990)           |           |                      |                     | (12,360)         | (442,350)         |
| n) Sheltered charges                  | (726,010)           |           |                      |                     | 379,490          | (346,520)         |
| o) Supporting People                  |                     |           |                      |                     | (656,050)        | (656,050)         |
| p) Other income                       | (277,000)           |           |                      |                     | 57,700           | (219,300)         |
| q) Total rents and other income       | (17,378,420)        |           |                      |                     | (975,640)        | (18,354,060)      |
| r) HRA subsidy                        | 5,623,460           |           |                      |                     | 561,310          | 6,184,770         |
| s) <b>Net HRA-Deficit/(Surplus)</b>   | 200,160             | 67,600    |                      | 536,170             | (806,840)        | (2,910)           |