

CABINET – 13 DECEMBER 2006

HOUSING REVENUE ACCOUNT BUDGET 2007/08

REPORT OF THE DIRECTOR OF COMMUNITIES

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RECENT REFERENCES:

CAB1071 Housing Options Appraisal, Draft Final Report – 20 April 2005

CAB1178 Housing Revenue Account Budget 2006/07 – 14 December 2005

CAB1231 Delivering Decent Homes – Business Plan Update 2006/07 – 22 March 2006

CAB1336 – Disposal of Vacant Dwellings – 15 November 2006

EXECUTIVE SUMMARY:

The Government has now announced Housing Revenue Account (HRA) subsidy determinations and rent increase proposals for 2007/08. The target rent formula aims to bring local authority rents directly in line with the formula used by housing associations. This means rents for all social housing will converge by 2011.

The draft subsidy determination assumes a basic increase in current actual rents of 4.1%. The Council is then required to apply at least one-fifth of the remaining difference between the increased actual rent and the calculated formula rent for 2007. By simply applying the above, rental income would increase by an overall average of 5.73%. However, under subsidy rules rents cannot increase by more than an overall average of 5%, and an additional allowance is to be made to compensate landlords for this capping.

The report sets out two options for capping rents to keep within the 5% limit. One limits any single increase to a maximum of 5.65% (to the advantage of over 4,000 tenants). The other applies no cap in general (maximum rent increase 8.36%) but reduces sheltered rents to reflect current difficulties in letting these properties (1070 tenants would benefit from this approach).

The report also proposes an HRA Revised Budget for 2006/07 and the budget for 2007/08. The report recommends a number of changes that result in a net surplus on the budget for the first time in three years, whilst allowing reasonable provision to ensure existing service standards are maintained. These changes include increasing garage rents and amending the scheme of allocations in relation to transfers.

RECOMMENDATIONS:

That, subject to consideration of comments from TACT, Cabinet recommend to Council:

1. That Housing rents for 2007/08 increase in line with the Government guideline, which assumes a basic increase in current actual rents of 4.1% + one fifth of the difference between current and formula rents under rent restructuring, but that a cap be applied to ensure that the maximum individual increase is 5.65% and the average increase overall is 5%.
2. That for properties where target rents are below current rents, the whole reduction be applied in 2007/08 as set out in paragraph 6.3 rather than the one fifth lower limit allowed under rent restructuring rules (to ensure the average rent increase remains within 5% overall).
3. That all new tenancies move straight to the target rent for that property rather than remain on the phased approach in line with identical neighbouring properties, as set out in paragraph 6.6.
4. That the Housing Revenue Account Budget for 2007/08 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 07).
5. That the Council's Central Control service be funded directly from the HRA with effect from 1 April 2008, subject to the approval of £20,000 General Fund provision to meet the cost of providing corporate services such as taking out of hours calls and covering for emergency planning and business continuity arrangements.
6. That existing weekly charges in relation to garage rents are increased to £7.50 for tenants (not leaseholders) living in City Council owned properties and to £8.50 (plus VAT) for other tenancies.
7. That existing weekly garage rents in the central town area of Winchester be charged at £7.50 for tenants (not leaseholders) living in City Council owned properties and £10 (plus VAT) for other tenancies.
8. That all sheltered and general needs service charges continue to be calculated to recover actual costs incurred on a scheme by scheme basis and that the Council's Scheme of Delegation to Officers be amended to give the Director of Communities power to determine these service charges, in consultation with the Director of Finance, as follows:

In paragraph C, 17 of the Scheme of Delegation to Officers (Part 3 of the Council's Constitution, Section 6), insert:

“(f) sheltered and general needs service charges calculated to recover actual costs on a scheme by scheme basis.”

That Cabinet approve:

9. That the Council's Scheme of Allocations be amended to ensure that one third of all new lettings be allocated to transfer list applicants and the remainder be allocated to waiting list applicants, and the Director of Communities be authorised to implement the changes provided no material concerns are raised in consultation with other housing partners.

CABINET – 13 DECEMBER 2006HOUSING REVENUE ACCOUNT BUDGET 2007/08REPORT OF THE DIRECTOR OF COMMUNITIESDETAIL: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 budget has been based on the draft determination for housing rents and subsidy issues in November 2006. The final determination is due later this month. This will not impact on guideline rents and no significant changes to subsidy are anticipated. Any material changes will be reported to Cabinet in January 2007. Management and maintenance allowances have decreased and notional rent levels have resulted in an increase in the level of negative subsidy payable in 2007/08 of £968,000. The projected increase in actual rents amounts to £755,000 due to the cap where the Council can only increase rents by an average of 5% overall (less than the guideline increase). However, the Government have introduced a "Rent Constraint Allowance" to compensate councils for this capping. The allowance for Winchester is projected at £480,000 and this will provide sufficient resource to cover inflationary increases on salaries and repairs. However, it will not be sufficient to address the many emerging issues facing the service, particularly in relation to repairs.

2 Revised Housing Revenue Account 2006/07

2.1 The revised HRA for 2006/07 as detailed in Appendix 1 column 4 and Appendix 2 column 4 takes account of a number of changes including:

- a) Rent and Other Income – This has been adjusted to take account of updated projections for garage rent, service charges and final grant levels agreed as part of the Supporting People review and also revised to take account of the reduced income at the hostel following redevelopment works.
- b) Sewage Treatment – An additional provision of £50,000 has been included to cover legal costs associated with a recent appeal concerning the rateability of sewage treatment works. Full details of this case will be reported to the Social Issues Scrutiny Panel in January. A proportion of these costs will be recharged to private connections.
- c) Management Overheads – Overheads in the revised budget have reduced by £165,000. £65,000 of this is due to accounting changes and the treatment of capital charges in line with CIPFA's 2007 Statement of Recommended Practice (SORP) for local authority accounting. The remaining £100,000 is a

net reduction in the cost of support services achieved through discussions and negotiations with support service teams.

- 2.2 The net effect of these changes is detailed in Appendix 1 and 2 and results in a reduction in the overall deficit for 2005/06 from £153,390 to £66,460, resulting in projected year-end balances at March 2007 of £765,217.

3 HRA Balances

- 3.1 The Council has in previous years sought to maintain a minimum balance of £1.25 million. However, as the HRA has operated at a deficit over the last two years, it has not been possible to sustain this level of balances. Balances at the end of 2006/07 are now projected at £765,217, in addition to an insurance reserve of £344,744 (to cover for insured risks below an excess level of £18,000).

- 3.2 CIPFA recommend that reserves should be retained at a level that makes adequate provision for potential risks and sensitivities that may face the service. In order to review requirements, a risk assessment has been completed and is detailed in Appendix 3. This assessment indicates that reserves of £700,000 would provide reasonable cover for potential risks on the service.

4 Housing Revenue Account Budget 2007/08

- 4.1 The budget detailed in Appendix 1 column 5 has a net surplus of £52,240. This budget will result in a year-end balance at March 2008 of £817,457. The draft HRA budget for 2007/08, as detailed in Appendix 1 includes growth items as detailed below:

- a) Inflation – Provision is required for salary inflation (£120,000) and also inflation on repairs (£85,000). No inflation has been added to the repairs budget for three years, despite the costs of a key element of this service increasing by RPI each year through the depot contract. Also, general building costs have increased significantly above inflation.
- b) Housing Options – The Council is required to repeat the housing options exercise by 2008. This will require investment in updating both stock condition information and the long term financial appraisal in light of current information. Also, independent support for tenants will be required. Provision of £50,000 to support this work will be included in the budget.
- c) Repairs and Estate Works – An additional £150,000 has been added to the Repairs Works budget to provide for inflation and also to take account of the real pressure that this budget has been subjected to in recent years. In addition to this, changes to the Scheme of Allocations as detailed in 4.3 below will provide further resources if approved. The detail of exactly how this additional resource will be spent will be included in the update of the Major Repairs and Maintenance Strategy in March 2007 which forms part of the HRA Business Plan. However, this increase will not be sufficient to make any significant provision for the several emerging issues on the service as set out in paragraph 5 below.

4.2 Actions proposed to assist with both funding this growth and addressing the 2006/07 deficit include:

- a) Increasing Garage Rents – Garage rents are currently £5.24, the cheapest of any landlords in Hampshire. Assuming other social landlords increase garage rents by inflation in April 2007, the average Hampshire garage rent will be £7.50 (considerably more for some landlords). Of the 1800 garages in the Council's stock, less than 800 are rented by tenants. It is therefore proposed to increase garage rents for tenants of City Council owned properties in line with the Hampshire average with effect from April 2007. For non tenants, Cabinet will be requested to consider a higher increase to £8.50 (plus VAT) for all city and district areas and £10 (plus VAT) for the central area of the town. Whilst this will almost certainly increase void levels in the short term, this will assist in some areas where there is a waiting list of current tenants who struggle to park near to their house. It is also considered that a charge of £8.50 per week is not unreasonable for a garage, with private garage rents being significantly higher than this. Whilst garage rents to tenants are paid over 48 weeks in line with dwelling rents, it is proposed for non tenant rents to be charged over 52 weeks. Initial discussions with TACT have raised some real concerns with the level of increase to tenants (a 43% rise) and members may wish to consider a phased approach for existing Tenants of City Council owned properties, capping any increase for existing garage tenancies to City Council tenants at £6.50 this year and applying the remainder next year. Even with such a cap, the changes should generate an additional £100,000 per annum.
- b) Changing the Scheme of Allocations in relation to transfers – The Council's scheme of Allocation provides for 50% of all vacant dwellings going to tenants from the transfer list and 50% from the joint housing register. Refusal rates by transfer applicants are significantly higher. Whilst transfers are considered to be an important element of meeting housing needs, they can be expensive, creating effectively a further void and resultant void reinstatement costs. A more common balance across other social landlords is for transfers to represent one third of allocations. This change could result in the number of void dwellings reducing by between 70 and 80 per year, saving the void budget in the region of £80,000. Such a change would require consultation with all housing partners.
- c) Increased General Fund Contribution for Grounds Maintenance – The General Fund makes a contribution of £30,240 towards the cost of grounds maintenance on estates. This is intended to reflect the level of right to buy properties. However, in light of the current proportion of properties sold since the commencement of the right to buy scheme, this figure should be £44,300 and therefore a growth bid for £14,000 has been included in the General Fund budget process.
- d) Self Insurance Fund – The "Insurance Reserve" is a provision made to meet potential insurance claims that amount to less than the £18,000 excess per claim agreed as part of the current cover. Recent claims experience would indicate that this level of provision is more than sufficient to cover potential claims for some years and so it is proposed that no further provision is made to the Reserve in 2007/08. This will effectively save over £50,000 based on

this year's provision. However, it should be noted that this is a "one-off" saving and this level of provision is likely to be required for 2008/09.

- e) Changes to the Funding for the Central Control Service – Changes to the service provided to sheltered tenants agreed as part of the Supporting People contracts this year have emphasised the essential contribution to the sheltered service made by Central Control. Further changes required as part of the Supporting People Strategic review of older persons services next year will no doubt result in further extending the role of Central Control. In light of this, it is proposed to move Central Control back within the direct control of the HRA from April 2007. To ensure that the HRA does not subsidise the provision of services to private residents, it will be necessary to increase private charges above inflation and to increase the charge back to the General Fund for corporate services such as taking out of hours calls and covering for emergency planning and business continuity arrangements. It is projected that this will raise an additional £40,000 in total and offset the current HRA subsidy to this service.
- f) Service Charges – As agreed in this year's budget, all service charges are now calculated to recover actual costs incurred on a scheme by scheme basis. For existing tenants, increases were capped by the same inflation + £2 limit applied to rents. The difference remains subsidised by the HRA generally. The service charges for 2007/08 will move a step further towards removing this subsidy and generate an additional £20,000.
- g) Management Overheads – As described in 2.1 e) above, significant reductions have been agreed for management overheads. In addition to the removal from overheads of the £365,000 charge for Central Control (now included as a specific service in the HRA – Appendix 1, line h), the charge for support services has been reduced by more than £100,000 in comparison to the original 2006/07 budget.

5 Emerging Issues

- 5.1 Since 2005, a number of major issues have emerged that will place further pressure on limited Housing Revenue Account (HRA) and capital resources in future years. Many of these were highlighted in the 2006 HRA Business Plan Update, including:
 - a) Backlog of disabled adaptation works (projected at £300,000 at March 2007)
 - b) Increasing heating system obsolescence (estimated at £250,000 per annum and subject to a detailed report in early 2007)
 - c) Digital switchover by 2012 (costs estimated at £400,000)
 - d) Low demand for sheltered housing
- 5.2 Whilst the proposed budget is positive in relation to recent years, it does not provide resource to assist with these emerging issues. The recent proposals contained in CAB1336 – Disposals of Vacant Dwellings remains the only serious short term option open to the Council to assist with developing a capital programme to address these issues and a report on the Housing Investment Programme for 2007/08 and beyond will be brought to Cabinet in January 2007.

5.3 In addition, the ongoing sensitivity of the revenue budget should be noted. The detailed long term financial appraisal completed as part of the Housing Options highlighted how sensitive the budget is to future changes. Some key challenges will be faced in the coming years, including the Strategic Review of Older Persons service to be completed by Supporting People in 2007/08. This will challenge funding levels for support provided to older tenants.

6 Options for Actual Rent Increases

6.1 The draft subsidy determination assumes a basic increase in current actual rents of 4.1% (3.6% inflation +0.5%), then we are required to apply at least one-fifth of the remaining difference between the increased actual rent and the calculated formula rent for 2006.

6.2 No individual rent may increase by more than 3.6% + £2 per week and the overall rental income should not increase by more than 5% as a result of proposed changes.

6.3 As part of the rent setting process last year, it was agreed that for tenants whose target rent is lower than current rents, the move towards target rent should be accelerated. Half the difference was applied in 2006/07 and the remainder is to be applied in 2007/08. This report does not recommend any change in this approach.

6.4 By simply applying the above, rental income would increase by 5.73%. However, under subsidy rules rents cannot increase by more than an overall average of 5%, and an additional "Rent Constraint Allowance" is to be made to compensate landlords for this capping.

6.5 Landlords have discretion to vary individual rents + or – 5% from the formula, and the following options have been identified to reduce some rents to achieve the 5% overall income cap:

a) Option 1: Apply reductions in full where Target Rents are lower, otherwise apply the formula, with increases for individuals limited to 4.1% + £2 per week. An additional cap, available to all tenancies, sets maximum increases at 5.65%. Without the cap, the maximum increase would be 8.36%. 4020 tenancies would benefit from the cap (but most by a very small amount). Because of this, this option is recommended, although members may wish to consider option 2 below, which whilst benefiting fewer tenants overall, may help to address the issue of low demand for sheltered housing.

b) Option 2: Apply reductions in full where Target Rents are lower, otherwise apply the formula, with increases for individuals limited to 4.1% + £2 per week. No additional cap in the percentage increase, but allocate the additional money to offset or reduce increases for tenants of sheltered schemes, many of which are hard to let. The reduction could be 3.75% of increased rents, or a flat £2.50 per week. Tenants of 1070 properties would benefit from this form of capping (some of which are currently vacant).

6.6 It is also proposed to move all new tenants straight to target rent. Until now, the Council has continued to apply the phased rent to new tenants also in line with

Government advice aimed at ensuring consistency of rent between neighbours. However, with the limits now being set by the subsidy system, most tenants will not reach the target by 2011. It is unclear how this will be treated by the subsidy process in the long term so opportunities to move new tenants to target should be taken as they arise. This is not likely to generate additional income to the Council as the Government's Rent Constraint Allowance will be adjusted accordingly. It will however, help to slightly reduce the risk of negative subsidy impact beyond 2011.

6.7 The Impact of Rent Changes

Change %	Option 1, no of tenancies	Option 2, no of tenancies
Reduction greater than 10%	4	20
Reduction, 5-10%	74	119
Reduction, up to 5%	105	187
Increase up to 1%	54	77
Increase, more than 1%, up to 2%	35	129
Increase, more than 2%, up to 3%	40	179
Increase, more than 3%, up to 4%	87	504
Increase, more than 4%, up to 5%	277	208
Increase, more than 5%, below 5.65%	441	370
Increase, more than 5.65%, below 6%	350 – reduced to 5.65%	314
Increase, more than 6%, up to 7%	2469 – reduced to 5.65%	2252
Increase, more than 7%, up to 8%	1158 – reduced to 5.65%	741
Increase, more than 8%, up to 8.36%	43 – reduced to 5.65%	37

Change per week £(x48)	Option 1, no of tenancies	Option 2, no of tenancies
Reduction of more than £10	1	4
Reduction, £5.01 to £10.00	54	131
Reduction, £0.01 to £5.00	128	191
Increase up to 50p	49	48
Increase, 51p to £1.00	12	113
Increase, £1.01 to £1.50	25	95
Increase, £1.51 to £2.00	29	600
Increase, £2.01 to £2.50	60	23
Increase £2.51 to £3.00	160	18
Increase £3.01 to £3.50	1296	128
Increase £3.51 to £4.00	1169	123
Increase £4.01 to £4.50	896	1341
Increase £4.51 to £5.00	1202	1200
Increase £5.01 to £5.50	53	1116
Increase £5.51 to £6.03	3	6

7 Conclusions

- 7.1 The proposed budget for 2007/08 not only brings the HRA back into surplus, it also addresses a number of the current funding pressures which have had a direct effect on services delivered to tenants. Whilst not addressing the potential medium funding concerns highlighted through the Housing Options process or the emerging issues

highlighted in paragraph 5, it does ensure that key services such as repairs and estate maintenance keep pace with inflation without relying on balances.

OTHER CONSIDERATIONS:

8 CORPORATE STRATEGY (RELEVANCE TO):

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

9 RESOURCE IMPLICATIONS:

9.1 As detailed in the body of the report

10 TACT COMMENT:

10.1 A joint meeting of the afternoon and evening group of TACT has been arranged for 6 December 2006. Tact's comments concerning this paper will be prepared after that meeting and circulated as a supplementary agenda item for the meeting.

BACKGROUND DOCUMENTS:

Working papers held in the Communities and Finance Directorates

APPENDICES:

- 1 HRA Service Summary 2007/08
- 2 HRA Subjective Summary 2007/08
- 3 HRA Balances – Risk Assessment

HOUSING REVENUE ACCOUNT BUDGET 2007/08

Service summary	2005/06 Actual	2006/07 Original Budget	2006/07 Revised Budget	2007/08 Original Budget
(1)	(2)	(3)	(4)	(5)
<u>Service</u>				
	£	£	£	£
a) Housing management - General	2,321,043	2,354,310	2,271,090	2,450,450
Housing management - Special :				
b) - Sheltered housing	1,180,365	1,217,650	1,119,830	783,630
c) - Communal services	98,514	93,100	86,470	87,470
d) - Homelessness	29,856	(38,510)	(3,860)	(5,180)
e) - Estate maintenance	211,445	174,920	174,620	160,860
f) - Disabled adaptations	323,158	341,460	339,030	341,620
g) - Sewage works	138,962	77,320	128,200	70,670
h) - Central Control				283,240
i) Total housing management - Special	1,982,301	1,865,940	1,844,290	1,722,310
j) Repairs - administration	777,270	890,620	862,320	916,940
k) Repairs - works	2,929,936	2,890,000	2,890,000	3,040,000
l) HRA housing benefits	81,804	37,770	37,770	37,770
m) Capital Financing	3,899,629	3,939,230	3,921,370	3,994,310
n) Dwelling rents	(16,444,900)	(17,265,000)	(17,265,000)	(18,020,000)
o) Garage rents	(446,900)	(507,000)	(454,000)	(590,000)
p) Sheltered charges	(215,973)	(222,000)	(253,000)	(288,330)
q) Supporting People	(720,981)	(686,000)	(626,000)	(640,560)
r) Other income	(215,786)	(184,800)	(180,240)	(180,760)
s) Total rents and other income	(18,044,539)	(18,864,800)	(18,778,240)	(19,719,650)
t) HRA subsidy	6,219,432	7,040,320	7,017,860	7,985,630
u) Subsidy-Rental Constraint Allowance				(480,000)
v) Transfer re Pension Reserve	(80,251)			
w) Net HRA -Deficit/(Surplus)	86,625	153,390	66,460	(52,240)

HOUSING REVENUE ACCOUNT BUDGET 2006/07**Subjective summary**

	2005/06 Actual	2006/07 Original Budget	2006/07 Revised Budget	2007/08 Original Budget
(1)	(2)	(3)	(4)	(5)
<u>Detail</u>				
	£	£	£	£
a) Employees	2,481,340	2,450,460	2,467,450	2,999,520
b) Premises	4,229,883	3,975,940	3,982,380	4,134,950
c) Transport	137,259	138,570	152,500	177,120
d) Supplies and services	318,073	170,570	220,270	289,270
e) Third party payments	21,079			35,000
f) Transfer payments	3,000			
g) Capital financing	4,126,307	4,178,960	4,195,480	4,298,790
h) Management overheads	1,832,819	1,980,490	1,817,690	1,553,220
h) Expenditure	13,149,760	12,894,990	12,835,770	13,487,870
i) Fees and charges	(12,409,724)	(12,264,320)	(12,207,890)	(12,844,770)
j) Internal contributions to GF	(30,860)	(30,240)	(30,240)	(44,000)
k) Recharges to services	(374,118)	(253,100)	(271,570)	(347,960)
l) Income	(12,814,702)	(12,547,660)	(12,509,700)	(13,236,730)
m) Transfers	(248,432)	(193,940)	(259,610)	(303,380)
n) Net HRA-Deficit/(Surplus)	86,625	153,390	66,460	(52,240)

HOUSING REVENUE ACCOUNT BUDGET 2007/08**WORKING BALANCE**

a) Opening Balance @ 1/4/06 (Actual)	£ (831,677)
b) Add Projected Deficit 2006/07	66,460
c) Projected Working Balance @ 31/3/2007	(765,217)
d) Add Projected Deficit 2007/08	(52,240)
e) Projected Working Balance @ 31/3/2008	(817,457)

INSURANCE RESERVE

Opening Balance 1/4/06	(331,174)
Revenue Contribution 2006/07	(53,570)
Contribution to HRA	40,000
Balance 31/3/07	(344,744)
Revenue Contribution 2007/08	(53,570)
Contribution to HRA	53,570
Balance 31/3/08	(344,744)

HRA Working Balances – Risk Assessment

Risk	Potential	Total Impact on HRA	Risk Provision	Comment
Arrears up by 1%	30%	180,000	54,000	Consistent performance, but some risk due to staff changes
Voids up by 1%	10%	180,000	18,000	Currently 2% - processes & targets improved for 2007/08
Urgent Repairs up by 10%	10%	100,000	10,000	Proportion of urgent work already high for WCC
Inflation up by a further 1%	20%	100,000	20,000	Budget allowed for 3%
Unforeseen uninsured losses	20%	800,000	160,000	Could include storm damage, building failure etc
Overheads increase above inflation	30%	350,000	105,000	Significant changes in recent years so risk is high
Garage voids increase by 20%	40%	118,000	47,200	Very high risk due to proposed rent increases
Failure of drainage systems	30%	250,000	75,000	Contingency removed from budget in 2005
Boiler obsolescence increases by 25%	20%	150,000	30,000	Provision being made in Cap programme so risk lower
Subsidy changes/Constraint Allowance	20%	480,000	96,000	Rent constraint allowance new and subject to conditions
Right to Buys up by 20%	15%	50,000	7,500	Unlikely in current market
Loss of 30% lifeline contracts	40%	50,000	20,000	Increased charges will impact on competitiveness of service
Other Unforeseen Budget Pressures	20%	250,000	50,000	General provision

Minimum Provision = £ 692,700