



Report to: Special Council

Date of Meeting: 2 March 2006

Report from: Director of Community Services and
Finance and Accountancy Manager

Title of Report: Housing Revenue Account

Agenda Item Number:

1. PURPOSE AND SUMMARY

1.1 This report:

Advises Council of the revised Probable Outturn for the Housing Revenue Account for 2005/2006.

Makes recommendations for the setting of the 2006/2007 Housing Revenue Account budget.

Makes recommendations for the setting of rent levels for Council tenants for 2006/2007.

Makes recommendations for the setting of a range of charges affecting Council tenants for 2006/2007.

2. CONSULTATION

2.1 The report has been prepared in consultation with the Director of Community Services. The Safe and Healthy Overview and Scrutiny Panel and the Tenants Panel have been consulted on the content of the report.

3. CORPORATE PLAN AND PRIORITIES

3.1 The Council's medium term financial strategy requires the establishment of sustainable longer term budgets. The 2006/2007 HRA Budget meets this requirement.

4. IMPLICATIONS

4.1 Financial

The changes to the Housing Revenue Account subsidy rules taken together with the revised national formula for setting rents for social landlords has had a major impact on the preparation of the 2006/2007 HRA Budget.

The Office of the Deputy Prime Minister has changed the way in which housing subsidy is distributed nationally to all local housing authorities from 2006/2007. These changes are expected to be in place for the next 2 years.

All local housing authorities have seen reduced subsidy levels for 2006/2007 with Northern Authorities suffering the lowest national reduction. In the case of Chester-le-Street, the Council will receive around £500,000 less housing subsidy in 2006/2007 than in the previous financial year and this has resulted in a significant re-shaping of spend levels in 2006/2007.

In addition, the Office of the Deputy prime Minister had undertaken a 5 year review of the way in which rents for social rented landlords are calculated. When Rent Re-structuring was introduced in 2001 it was always expected that a review would be undertaken in 2005/2006 to inform rent levels for the remainder of the rent restructuring period to 2012/2013.

Rent levels will increase in Chester-le-Street by 5% in 2006/2007 and 2007/2008. Under the proposed formula rent levels should have increased by 5.9% in 2006/2007 but the Office of the Deputy Prime Minister has set transitional arrangements to cap rent increases in any one year to 5%.

Officers are proposing in the body of the report, increases in heating charges for sheltered housing tenants to reflect recent increases in utility bills.

There is some uncertainty about how income levels and charge levels for Supporting People contracts will be set for 2006/2007. Officers have made assumptions in this report that charges and income levels will remain broadly in line with 2005/2006 levels.

4.2 Legal

The Council is required to set rent levels in line with the rent re-structuring formula set by the Office of the Deputy Prime Minister. Rent increase letters must be given to tenants at least 28 days before the rent increase can be applied.

4.3 Personnel

There are no personnel implications arising from the report.

4.4 Other Services

There are no implications for other services arising directly from the report.

4.5 Diversity

There are no issues of equality or diversity arising from the report.

4.6 Risk

Officers have modelled the revenue position for the Housing Revenue Account over the next 5 years and can confirm that the Housing Revenue Account is sustainable over that period provided that the recommendations are approved. The financial risks within the Housing Revenue Account in strategic terms are therefore very low.

Officers are proposing some reductions in repairs and maintenance expenditure in 2006/2007 and some reductions in tenant participation budgets in 2006/2007 in order to set a sustainable budget. The recent tenants satisfaction survey identified repairs and maintenance spending as the most important service area for future investment. In addition 53% of all homes are currently non Decent with a prediction that up to 75% of homes could become non decent next year. Reductions in spending on repairs and maintenance are therefore likely to adversely affect tenant satisfaction levels. However, the significant increase in investment through the capital programme is expected to more than compensate for the reduction in the planned maintenance budget. This is a more strategic and structured approach addressing the non decent standard, which should enhance customer satisfaction levels.

4.7 Crime and Disorder

There are no issues of crime or disorder arising from the report.

5. **PROBABLE 2005/2006**

5.1 The probable outturn position for the current year, 2005/2006, is showing a surplus of £264,760 compared with a budgeted deficit for the year of £427,790. The main reasons for this are:-

- Careful budget monitoring throughout the year. Budget Clinics introduced during the year coupled with a close working relationship between Housing and the Finance Team has achieved this result.
- Securing operational efficiencies during the year.
- An under-spend on the Stock Options Appraisal budget of £109,700 due to a large amount of work being carried out in house rather than the use of external consultants.
- An increase in rental income of £243,400 due to a reduction in the number of right to buy sales compared to the original estimate.
- Additional interest of £20,900 expected on the Housing Reserves balance.
- An increase in the negative subsidy payable to the Government of £51,890 due to an increase in the stock numbers.
- A net under-spend on repairs and maintenance of £176,620 due to a range factors.

5.2 The performance of the Building and Maintenance DLO is not taken into account in the above figures although it is expected that this account will be in a break-even position at the year-end. It is believed that this is the first time in 4 years that the DLO will have made a return for the Housing Revenue Account.

5.3 Taking into account the above the HRA balance is expected to be around £1,341,540 at the year end. This is considered to be a healthy position for balances given the size of stock. Having adequate levels of balances, due to prudent management of the HRA over the last couple of years, has enabled the Council to absorb most of the impact of the subsidy withdrawal without having to cut service delivery.

6. BUDGET 2006/2007

6.1 A copy of the Housing Revenue Account is enclosed. It shows a deficit of £456,690 during the year resulting in a HRA balance carried forward into 2007/2008 of £884,850 (this is still considered to be an adequate level of balances for the authority to have).

6.2 The projected deficit for 2006/2007 is a result of an increase in negative subsidy payable to the Government in 2006/2007. The negative subsidy increases significantly in 2006/07 primarily because of changing stock numbers and the fact that the Government has rationalised the rent guideline calculations and the allowances. The amount of additional subsidy payable in 2007/08 should be much smaller as the formulae have all now been rationalised.

6.3 The authority has received an increase in management and maintenance allowances of 10.4% between 2005/2006 and 2006/2007 and an increase in major repairs allowance of 5.3%. However, as the guideline rent has increased by 9.6% between 2005/2006 and 2006/2007 (increase of 5.2% between 2004/2005 and 2005/2006), the net resources available to the authority has only increased by 3.7%. In overall terms the original budget estimated £1,410,640 to be paid to the Government compared to a probable of £1,462,530. The estimate for 2006/2007 is £1,905,730. The effect in the change in subsidy is that reduced resources are available to the Authority for 2006/2007 due to the effect of the stock numbers, changes in management and maintenance allowances and capital charges offset by the increase in the guideline rent.

6.4 The amount of rent charged for each individual dwelling is controlled by the Government's formula rent calculation. Increases in rents from 2005/06 levels will average 5.89% with effect from 1 April 2006. Obviously this is an average increase, some tenants will have lower increases and some will have higher. However the Government has stated that average increases generated by their formula should be restricted to an average of 5%, at Authority level, with the 0.89% "lost" rent income being paid by the Government to Chester-le-Street as compensation.

6.5 Overall the extra net rent income for 2006/07 will be some £240,000, after accounting for lost rent income due to Right to Buy sales. A similar increase should occur in each future year.

- 6.6 Each year the Government sets a “guideline rent” for the purposes of calculating housing subsidy. The guideline rent and the actual rent will converge over the next 5 years as part of the rent restructuring arrangements. The guideline rent for 2006/2007 is £49.20 based on a 50 week year. The average actual rent for 2006/2007 is £48.92 based on a 50 week year. The actual rent increases to be implemented with effect from 3rd April 2006 will range from £0.83 per week to £3.41 per week. The average actual increase is £2.22 per week which represents a rise of 5.0%. The 2006/2007 rent increase has been incorporated into the draft budget for 2006/2007. The average number of dwellings for 2006/2007 is estimated to be around 4,432 and the budget for rent income reflects the lower number of properties due to sales and demolitions. The loss of rent income due to void properties is based on a void rate of 1.0% for 2006/2007 and amounts to £111,080. The rate used in 2005/2006 was 2.0% however due to a determined effort on behalf of the Housing Officers there is currently an average of 45 voids per week.
- 6.7 The budget also includes one-off costs of £336,000 for Service Strengthening and Development and consultancy costs for Stock Options Appraisal. Other issues to take into account are as follows:-
- All necessary growth has been included in the budget;
 - The dwelling rent rise has been included in the budget;
 - The garage rent and heating charges increase have been included.
 - A contribution from reserves of £164,040 has been included for consultancy costs, communication materials, a DLO health check and customer care training.
- 6.8 Members may wish to increase garage rents. These are currently £4.90 per week. The Council owns approximately 1,012 garages therefore an increase of 20p per week will generate approximately £10,000 per annum over a 50 week year.
- 6.9 In relation to heating charges the following increases are proposed. The high increase is due to the predicted rise in energy costs in 2006/2007 and also that no increase was made in 2005/2006. There was however an increase in utility costs made in April 2005, which only became apparent after the budget process was complete. This contributed to the particularly high increase originally proposed.

	Current Weekly Charge	Original Proposed Weekly Charge	Revised Proposed Weekly Charge
Bed Sit	£3.40	£5.60	£3.80
Flat	£5.00	£7.80	£5.60
Warden	£6.50	£10.00	£7.30

7. GROWTH

- 7.1 The budget includes several new growth areas which have been included to improve service delivery to the tenants. All growth areas have been included in the projected HRA balance referred to in 6.1 above.

8. COMMENTS OF THE OVERVIEW & SCRUTINY PANEL AND TENANTS PANEL

- 8.1 The Safe and Healthy Communities Overview and Scrutiny Panel considered the budget proposals on 16 February and expressed concern about the reduced provision for planned maintenance. The Panel did not make any alternative recommendations for consideration by Council.
- 8.2 The Tenants Panel have also been consulted on the content of the report and officers have not received any comments.

9. REPORT OF THE STATUTORY FINANCE OFFICER

- 9.1 Section 25 of the Local Government Act 2003 requires the statutory financial officer to make a statement on the robustness of the budget. I am satisfied that adequate provision has been made in the budget for expenditure in order to deliver an affordable level of services to Council tenants. Similarly, an adequate assessment of likely income levels has been made on the basis of assumptions determined in the light of the best available information.

10. EXECUTIVE'S CONCLUSIONS

- 10.1 At its meeting on 23rd February, the Executive:-
- (1) agreed to recommend a rent rise in accordance with the Governments' requirements of rent restructuring which will result in an average rent of £48.92 per week based on 50 weeks to Council;
 - (2) agreed to recommend an increase in garage rents by 20p per week to £5.10 to Council;
 - (3) considered the original proposed increases in respect of heating charges and decided that this was too high, and therefore requested Officers to establish whether the required increase could be phased. The revised proposed increases are detailed in section 6.9 above and will mean that the energy charges be increased to £3.80 for a bed sit, £5.60 for a flat and £7.30 for warden accommodation.
 - (4) noted the comments of the Statutory Finance Officer; and
 - (5) agreed that the Director of Resources and the Director of Community Services report back to Executive as soon as the new arrangements for the Supporting People Grant are confirmed.

11. RECOMMENDATIONS

11.1 It is recommended that for 2006/2007 Council approves:-

- (1) the average rent of £48.92 per week based on 50 weeks;
- (2) garage rents of £5.10 per week; and
- (3) energy charges of £3.80 for a bed sit, £5.60 for a flat and £7.30 for warden accommodation.

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