



SPECIAL HOUSING SERVICES COMMITTEE

17 FEBRUARY 2005

Report of the Director of Central Resources and Director of Housing Services **HOUSING REVENUE ACCOUNT – 2005/06 BUDGET**

purpose of the report

To seek Committee approval of the Housing Revenue Account (HRA) 2005/06 budget including proposals for rent levels and changes in service.

background

1. The Council is required under the 1989 Local Government and Housing Act to set tenant rents at a level that ensures that the HRA is in balance. It is illegal to set an HRA budget that will knowingly generate a deficit.
2. After a period of financial difficulty, the HRA has now been put on a more stable footing. The Authority benefited significantly from large increases in housing subsidy received in 2004/05. Further subsidy increases in 2005/06 have further improved the position.
3. Latest estimates indicate a surplus of £652,000 as at 31st March 2005 that can be used to support expenditure in 2005/06. This compares to a deficit in the HRA as at 31st March 2004 of £209,000. Therefore the financial position has improved by £861,000 during 2004/05. The main factors impacting upon the HRA are detailed below.

HRA subsidy

4. The Government calculates annually the level of subsidy that the Council is to receive to support the activities of the HRA. This has a major impact upon the resources available for service delivery. The subsidy payable by the Authority is based upon notional figures and is intended to represent the estimated surplus of income over expenditure. It is the sum of the following simplified formula:

(Rental income - management allowance - maintenance allowance - financing charges)

management allowance

5. The Council receives an allowance per property to cover the management of the housing stock. Wear Valley will receive an increase of 9% or £33.29 per property from 2004/05 to 2005/06.
6. In total the Council will receive an additional £31,000 in 2005/06 compared to 2004/05. The increase is significantly less than indicated by the provisional settlement due to late changes in the statistics used by Government in calculating the allowance. The level of allowance places the Council 136th highest out of 227 authorities by level of allowance received.

maintenance allowance

7. The maintenance allowance is intended to cover the day to day cost of maintaining and repairing the housing stock. Wear Valley will receive an increase of 19% or £124.00 per property.
8. In total the Council will receive an additional £378,000 in 2005/06 compared to 2004/05. This places the Council 171st highest out of 227 authorities by level of allowance received.

financing charges

9. The impact of financing charges upon subsidy is a beneficial impact of approximately £55,000. The levels of borrowing to be used to finance housing capital expenditure will generate a corresponding revenue subsidy. The subsidy receivable by the Authority is based upon borrowing of £1.2m that can be used to support capital expenditure.

rental income

10. Assumed rental income is linked to the Government policy of rent restructuring that is detailed later. It is assumed in calculating subsidy that rent levels will rise by 5.4%. However, rent restructuring dictates that actual rent levels rise by 3.4% and therefore the government is calculating subsidy based upon the council receiving greater rental income that it will generate in practice. The net effect upon subsidy is still beneficial by approximately £184,000 due to declining stock numbers.

subsidy summary

11. In total, the impact of the subsidy system will increase resources available to the HRA by £648,000 from 2004/05 to 2005/06.

rent restructuring

12. Rent restructuring is the term used to describe the process of rent setting based upon a national formula that takes account of regional wage levels, property type and value of the property. It is intended to minimise differences in rent levels between councils and other registered social landlords for similar properties.
13. As well as resulting in differential rent changes for tenants within the authority, it also prescribes the Council's ability to set rent levels different from that assumed by the Government. The implications are linked to the HRA subsidy system. The Government assumes that rent levels under rent restructuring will rise on average by 3.4% in 2005/06. However as mentioned earlier, subsidy is based upon rents increasing by 5.4%.
14. The Council is free to set a rent increase below 3.4%, however projected rental income will be reduced. It may also set rent levels above 3.4% up to a level where no tenant pays more than 3.6% plus £2 per week more than the current year. However, due to rent rebates subsidy limitation that has been in place since 1996, the Government will not fund the additional costs of rent rebates above that figure. Therefore, for every additional £1 increase in rent, the Government will claw back

£0.59. Consequently, the options of increasing rents by other than 3.4% assumed by rent restructuring are limited.

rental income and voids

15. As the HRA is ring fenced and cannot be funded by council taxpayers, its only major source of income aside from housing subsidy is via the rents paid by tenants. The income received depends upon the Council's ability to let its properties and collect the rent due.
16. Whilst "difficult to let" properties have been demolished and turnaround times for letting properties have improved, void rates continue to be high at around 6%. This is a major drain upon the HRA finances. An increase in the void rate of 1% costs the Authority £100,000 in lost rental income. In paying subsidy, the Government assumes that each council has a void rate of 2%. If Wear Valley attained that rate, the additional income generated per annum would be £400,000.

bad debts

17. The Council is required to set aside sums in the accounts to compensate for the likelihood of not collecting rent and related debts due. The amount set aside is determined by the level of rent arrears and related debts as well as the level of debt written off as uncollectable.
18. A provision of £1,088,000 is currently set aside within the accounts to compensate for non-payment and eventual write off. If arrears were to reduce, some of that provision could be released to support the HRA. The budget figures as presented assume an increase in bad debt provision of £150,000 in 2004/05 and are based upon best estimate.

almo

19. All revenue costs associated with the set up of an Arms Length Management Organisation (ALMO) are chargeable to the HRA. An item is contained within the growth bids detailed below.

draft budget

20. The Council is obliged to set a budget, which avoids negative reserves. It cannot be cross-subsidised by the General Fund. At the start of 2004/05 the Council had HRA negative reserves of £209,000. In setting the 2004/05 budget, a minimum working balance of £620,000 was considered necessary. The projected outturn for 2004/05 is very close to budget. Estimated reserves to carry forward to 2005/06 are £652,000.
21. It is important that the HRA has sufficient balances to cover future resource demands of the service. Recent experience has shown that balances can be used up very quickly due to unexpected spending pressures.
22. My judgement is that with the boost of additional subsidy, the Council should budget for a minimum reserve on the HRA of £1,000,000 as at the end of 2005/06. This will provide a healthy cushion for the HRA, allow reasonable levels of investment in 2005/06 and provide a sound base from which to invest in future improvements to the service.

23. The draft budget is shown in the table below:

	Actual 2003/04	Original Budget 2004/05	Revised Budget 2004/05	Draft Budget 2005/06
	£000	£000	£000	£000
Supervision & Management	1,670	1,932	2,007	2,195
Repairs & Maintenance	2,667	2,760	2,728	2,774
Debt Charges	2,348	1,834	1,760	1,820
Housing Subsidy	(3,242)	3,359	3,444	2,796
Rent Rebates	7,612	-	-	-
Bad Debts	284	200	170	150
Total Expenditure	11,339	10,085	10,109	9,735
Rental Income	(11,119)	(10,900)	(10,930)	(10,820)
Interest on balances	(38)	(20)	(40)	(50)
Total Income	(11,157)	(10,920)	(10,970)	(10,870)
Deficit / (surplus)	182	(835)	(861)	(1,135)
Balance b/f	27	215	209	(652)
Balance c/f	209	(620)	(652)	(1,787)

24. The current draft budget assumes that rents will increase on average by 3.4%.

25. As from 2004/05, rent rebates were transferred to the General Fund. The element of housing subsidy used to fund these costs was similarly transferred. Housing subsidy is shown as an expenditure figure as monies are now repaid to the Government.

medium term position

26. The forecasted financial position of the HRA is as below.

	Draft Budget 2005/06	Draft Budget 2006/07	Draft Budget 2007/08
	£000	£000	£000
Total Expenditure	9,735	10,018	10,279
Total Income	(10,870)	(10,750)	(10,630)
Deficit / (surplus)	(1,135)	(732)	(351)
Balance b/f	(652)	(1,787)	(2,519)
Balance c/f	(1,787)	(2,519)	(2,870)

rent increases

27. The table below indicates the impact upon the above figures of setting rents other than at 3.4%.

	0%	2%	3.4%	5%	10 %
Average Increase Per week	-	£0.89	£1.51	£2.22	£4.45
(loss) / gain in rental income	(£368,000)	(£151,000)	-	£173,000	£714,000
Loss of Subsidy	-	-	-	£102,000	£421,000
Net (loss) / gain in rental income	(£368,000)	(£151,000)	-	£71,000	£293,000

28. The current average weekly rent of £44.48 is the maximum permitted by Government without loss of subsidy. Rent increases in excess of the Government guideline under rent restructuring of 3.4% results in a loss of subsidy. If a higher rent increase were applied, the Council would continue to suffer losses of subsidy in 2006/07 unless rents in that year were set at a level that brought it back into government guidelines.
29. Increases in excess of 8% would also breach the Government rule that no individual rents should increase in 2004/05 by 3.6% + £2 per week. Due to the clawback of subsidy, increases above 3.4% are therefore not recommended.

summary of growth options

30. A summary of the recommended growth options totalling £637,300 is shown in the table below:

Option	Additional Growth (£000)	Comment
Bishop Auckland Street Wardens (existing scheme)	52.5	To mainstream existing street warden scheme in Bishop Auckland (50% chargeable to HRA)
Wear Valley Street Wardens	67.5	To expand existing scheme to a further six wardens to cover the whole of Wear Valley (50% chargeable to HRA)
Property Services (various)	264.3	To recruit several apprentices, a qualified electrical engineer and increase budgets on materials, contract payments, vehicle repairs etc.
Equalities and Diversity	13	Housing Inspectorate have recommended the production and implementation of a race equality action plan
Marketing Budget	30	To raise awareness of the availability of properties and encourage people to take up a tenancy
External Repainting Programme	100	To double budget and bring it into line with best practice
Promotion and Exhibition Fund	10	To provide promotion and display material following successful exhibitions at Wolsingham Show and Woodhouse Close
Arms Length Management Organisation (ALMO)	100	To buy in specialist staff to support the establishment of an ALMO and undertake the necessary consultation
Total	637.3	

31. If these growth items are accepted along with a 3.4% increase in rents, the 2005/06 budget results in budgeted reserves of £1,149,700 as at 31st March 2006.

garage rents and other charges

32. It is recommended to increase garage rents and sites in line with the 3.4% rent increase. We have had only provisional advice from Durham County Supporting People Team of the increase (if any) to be applied to Homeline Charges as they apply to Council properties.
33. As the Homeline charge is a legal part of the tenancy agreement, we are required to give four weeks notice of any rent increase. We are still due to be notified of the inflationary increase to be applied to the contract sums receivable from Durham County Supporting People Team (DCC SPT). Approximately 75% of Homeline customers in Council properties have their charge fully rebated by support from DCC SPT.
34. It is therefore recommended that we provisionally freeze the charges for Homeline customers who are Council tenants. Upon notification of the actual increase or decrease from DCC SPT, the charge will be amended accordingly and customers given the statutory four weeks notice of the subsequent change. It is possible that the final charge for 2005/06 will be the same as 2004/05 and that indications are that the DCC SPT may freeze the amount it pays for each customer. The effect is given below –

Property Type	2004/05	Proposed 2005/06
Garage	£4.80 (weekly) – 49 wks	£4.96 (weekly) – 49 wks
Garage site	£50.00 (annual)	£51.70 (annual)
Community Centres:		
Elderly & resident associations	Free	
Other	£12.00 (hour)	£12.60 (hour) *
Day rate	£36.00	£37.80
Half Day Rate (4 hours)	£22.00	£23.10
Building Society References	£55.00	£57.75
Council Homeline:		
Homeline – Sheltered	£8.06 (weekly) – 49 wks	£8.06 (weekly) – 49 wks
Homeline – Integral	£12.82 (weekly) – 49 wks	£12.82 (weekly) – 49 wks
Homeline – Lifeline	£3.01 (weekly) – 49 wks	£3.01 (weekly) – 49 wks
Private Homeline (lifeline):		
Housing Associations	£2.77 (weekly) – 52 wks	£2.77 (weekly) – 52 wks
Private	£3.87 (weekly) – 52 wks	£4.05 (weekly) – 52 wks
Additional Monitoring	£1.90	£2.00
Additional Visit (once per week)	£2.57	£2.70

* £4.20 for each hour thereafter

conclusion

35. If all growth options highlighted above were accepted amounting to a net cost of £637,300, a balance of £1,149,700 including a provision for stock options could be achieved by 31st March 2006.

36. The Council must under the 1989 Act set a balanced budget and views are requested on the options to include within the budget and the level of rent increase to be applied.

RECOMMENDED

1. Average property rents rise by 3.4% although individual tenants' rents will vary by differing amounts by application of the Government's rent restructuring formula.
2. The draft budget outlined in paragraph 23 plus the growth items listed in paragraph 30 is approved.
3. Changes to garage rents and other charges as listed in paragraph 34 be approved.
4. Homeline charges for Council tenants be frozen initially but subsequently amended by the Directors of Central Resources and Housing Services using delegated powers in consultation with the Chairs of Central Resources and Housing Services such that the change from 2004/05 levels is consistent with the increase provided by DCC SPT to the Council.

Officer responsible for the report

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