



SPECIAL HOUSING SERVICES COMMITTEE

8 February 2006

Report of the Director of Housing Services
9 – 22, ST STEPHENS CLOSE, WILLINGTON

purpose of the report

To seek Committee approval to demolish Nos 9-22, St Stephens Close, Willington and to sell the cleared site to the Three Rivers Housing Group (see plan at Annex 1).

background

- 1 The above one bedroomed flats are no longer required for housing purposes as little demand exists for this type of dwelling. None of the flats are currently occupied.
- 2 1-8 St Stephens Close were sold to Three Rivers Housing Group in October 2004. These dwellings have subsequently been refurbished and are now managed by The Richmond Fellowship for the provision of supported accommodation.

proposal

- 3 It is proposed to demolish the flats as soon as possible in order to reduce our ongoing financial liabilities ie the cost of security screening, council tax, loss of subsidy and rent loss.
- 4 Three Rivers Housing Group has approached the Council with a view to building six two-bedroomed bungalows (two adapted for wheelchair use) on the cleared site.
- 5 An option to advertise the site on the open market exists. However, there is strong demand for two bedroomed bungalows in Willington. For this reason, it is considered that disposal to Three Rivers Housing Group represents the best option for the site.

financial implications

- 6 The early demolition of the flats will save the Housing Revenue Account £1,400 per week (ongoing costs as outlined above).

- 7 The estimated cost of the demolition of the 14 flats (£28,000) would be met out of existing budgets. This cost would be recouped by both a saving of the ongoing costs and an increased capital receipt from the sale of the cleared site.

legal implications

- 8 By virtue of s32 Housing Act 1985, the General Housing Consents 2005, enables the Council to dispose of this land as long as we achieve the best consideration that can reasonably be obtained. This has been confirmed by the Council's legal section.
- 9 The contract should contain a condition that the land will be used for the construction of six two-bedroomed bungalows.

crime and disorder implications

- 10 The regeneration of this area will reduce the incidence of anti-social behaviour and enhance the appearance and sustainability of this part of Willington.

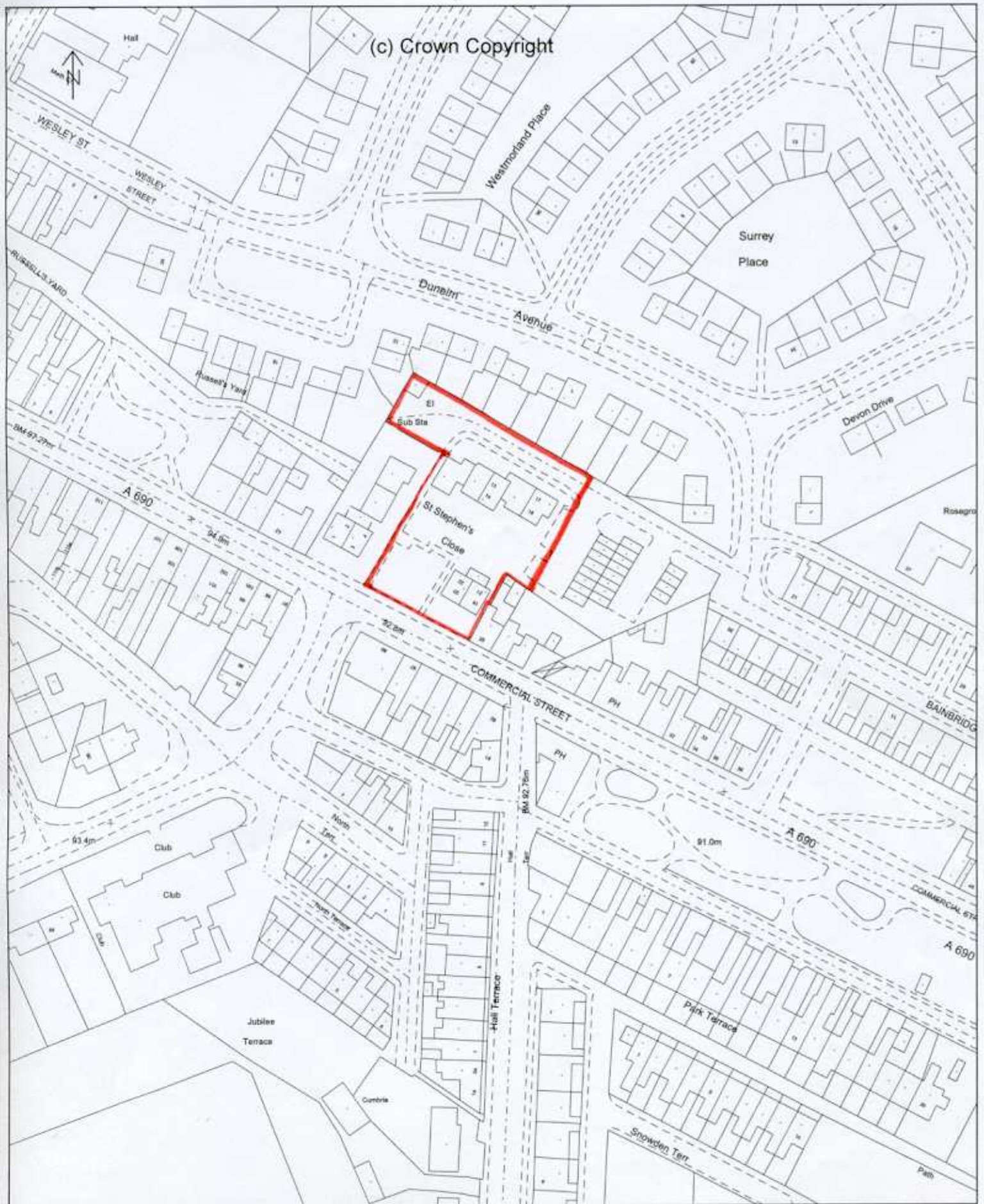
RECOMMENDED

- 1 Committee agrees to the demolition of numbers 9-22 St Stephens Close and the sale of the cleared site to Three Rivers Housing Group on the following terms and conditions:-
- a) Valuation to be agreed with or given by the District Valuer;
 - b) The cleared site to be used for the construction of six two-bedroomed bungalows; and
 - c) Three Rivers Housing Group to obtain all necessary planning and building consents.
 - d) Negotiations to include consideration of legal and valuation costs.

Officer responsible for the report
Michael Laing
Director of Housing Services
Ext 281

Author of the report
Ian Hornsby
Neighbourhood Operations Manager
Ext 289

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9-22 St Stephens Close Wellington

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SPECIAL HOUSING SERVICES COMMITTEE

8 FEBRUARY 2006

Report of the Director of Central Resources and Director of Housing Services **HOUSING REVENUE ACCOUNT – 2006/07 BUDGET**

purpose of the report

To seek Committee approval of the Housing Revenue Account (HRA) 2006/07 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. In the last two years, the HRA has been put on a more stable financial footing. Changes to the housing subsidy finance system have been favourable to the Council in recent years resulting in significant additional resources. However, the 2006/07 does not provide any further additional resource compared with prior years.
3. Latest estimates indicate a cumulative HRA balance of £1,120,000 as at 31st March 2006 that can be used to support expenditure in 2006/07. This compares to a cumulative HRA balance for the HRA as at 31st March 2005 of £561,000. Therefore the financial position has improved by £559,000 during 2005/06. 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 - debt 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 14% or £57.08 per property from 2005/06 to 2006/07.
6. In total the Council will receive an additional £182,000 in 2006/07 compared to 2005/06. The level of allowance places the Council 115th highest out of 235 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 13% or £99.74 per property.
8. In total the Council will receive an additional £301,000 in 2006/07 compared to 2005/06. This places the Council 151st highest out of 235 authorities by level of allowance received.

debt charges

9. The subsidy paid for debt charges results in a beneficial impact of approximately £62,000. However, this merely compensates the Council for debt charges that it incurs from sums borrowed in the current and previous years to assist financing the Council's capital programme. The impact upon the HRA is therefore broadly neutral.

rental income

10. Assumed rental income is linked to the Government policy of rent restructuring that is detailed later. The government will reduce subsidy to the Council based upon rent levels increasing by 10%. However, rent restructuring dictates that actual rent levels that the Council will charge tenants will increase by only 5%. Consequently, the Government assumes the Council will receive more rental income than it will in practice resulting in a financial penalty to the Council.
11. Taking into account reducing stock numbers, this results in a gross loss of subsidy between 2005/06 and 2006/07 to the Council of £557,000.

subsidy summary

12. In total, the impact of the subsidy system will decrease resources available to the HRA by £74,000 from 2005/06 to 2006/07.

rent restructuring

13. 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.
14. 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 5% in 2006/07. However as mentioned earlier, subsidy withdrawn from the Council is based upon rents increasing by 10%.
15. The Council is free to set a rent increase below 5%, however projected rental income will be reduced. It may also set rent levels above 5% up to a level

where no tenant pays more than 3.2% 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 5%. Therefore, for every additional £1 increase in rent, the Government will claw back £0.59. Consequently, the options of increasing rents by other than 5% assumed by rent restructuring are limited.

rental income and voids

16. 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.
17. Whilst "difficult to let" properties have been demolished and turnaround times for letting properties have improved, void rates continue to be high at around 5%. This is a major drain upon the HRA finances. An increase in the void rate of 1% costs the Authority £110,000 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 £360,000.

bad debts

18. 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.
19. A provision of £599,000 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 £100,000 in 2006/07 and are based upon best estimate.

almo

20. 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 to set aside further sums to cater for the additional costs associated with its establishment and initial operation.

draft budget

21. 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 2005/06 the HRA held balances of £561,000. In setting the 2005/06 budget, a minimum working balance of £1,000,000 was considered necessary. The projected outturn for 2005/06 is very close to budget. Estimated reserves to carry forward to 2006/07 are £1,120,000.
22. 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.

23. My judgement is that the Council should budget for a minimum reserve on the HRA of £1,250,000 as at the end of 2006/07. This will provide a healthy cushion for the HRA, allow reasonable levels of investment in 2006/07 and provide a sound base from which to invest in future improvements to the service.
24. The draft budget is shown in the table overleaf:

	Actual 2004/05	Original Budget 2005/06	Revised Budget 2005/06	Draft Budget 2006/07
	£000	£000	£000	£000
Supervision & Management	2,065	2,569	2,530	2,739
Repairs & Maintenance	2,775	3,038	3,142	3,174
Debt Charges	1,768	1,820	1,789	1,780
Housing Subsidy	3,444	2,796	2,800	2,812
Bad Debts	66	150	100	100
Total Expenditure	10,118	10,373	10,361	10,605
Rental Income	(10,842)	(10,820)	(10,870)	(10,870)
Interest on balances	(46)	(50)	(50)	(50)
Total Income	(10,888)	(10,870)	(10,920)	(10,920)
Deficit / (Surplus)	(770)	(497)	(559)	(315)
Balance brought forward	209	(653)	(561)	(1,120)
Balance carried forward	(561)	(1,150)	(1,120)	(1,435)

25. The current draft budget assumes that rents will increase on average by 5%.

medium term position

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

	Draft Budget 2006/07	Draft Budget 2007/08	Draft Budget 2008/09
	£000	£000	£000
Total Expenditure	10,605	10,794	10,988
Total Income	(10,920)	(10,920)	(10,920)
Deficit / (surplus)	(315)	(126)	68
Balance brought forward	(1,120)	(1,435)	(1,561)
Balance carried forward	(1,435)	(1,561)	(1,493)

rent increases

27. The table overleaf indicates the impact upon the above figures of setting rents other than at 5%.

	0%	2%	5%	8%	10 %
Average Increase Per week	-	£0.98	£2.45	£3.92	£4.90
(loss) / gain in rental income	(£518,000)	(£207,000)	-	£310,000	£518,000
Loss of Subsidy	-	-	-	£183,000	£306,000
Net (loss) / gain in rental income	(£368,000)	(£151,000)	-	£127,000	£212,000

28. The current average weekly rent of £48.77 is the maximum permitted by Government without loss of subsidy. Rent increases in excess of the Government guideline under rent restructuring of 5% results in a loss of subsidy. If a higher rent increase were applied, the Council would continue to suffer losses of subsidy in 2007/08 unless rents in that year were set at a level that brought it back into government guidelines.
29. Increases in excess of 7.4% would also breach the Government rule that no individual rents should increase in 2004/05 by 3.2% + £2 per week. Due to the clawback of subsidy, increases above 5% are therefore not recommended.

summary of growth options

30. A summary of the recommended growth options totalling £279,850 is shown in the table overleaf:

Option	Additional Growth (£)	Comment
Establishing the ALMO	50,000	This is additional to the existing £100,000 in the budget. It will help the ALMO Board to recruit and fund the Officer Head of the ALMO and Company Secretary.
Tenancy Enforcement Officers	60,620	To fund 2 additional officers The additional posts could qualify for Safer Stronger Communities Funding.
Value for Money Manager (50% contribution)	17,130	To fund a corporate post focusing on the twin issues of procurement and value for money raised during the housing inspection
Peer Review Inspection	10,000	To pay for consultancy to check progress against Inspection recommendations in advance of re-inspection.
Diagnostic Repairs Reporting Software	20,000	To purchase web based software to assist in repairs diagnosis. This would contribute towards best practice in repairs reporting
Additional Rent Statement and consultation	5,600	To cover additional postage costs
Lettable Standards Improvements	8,000	To respond to observations made by inspectors about the standard of decoration of void properties
Equalities and Diversity	7,500	Additional resources to allow more effective engagement with hard to reach groups

Option	Additional Growth (£)	Comment
(Customer Involvement)		
Call Centre Technology	5,000	To address issues raised in the inspection report
Tenant Incentive Scheme	3,000	To encourage tenants to maintain a clear rent account and increase the proportion opting to pay by direct debit
Service Innovation Fund	77,000	To create a fund to deliver small scale service innovations which arise in year in response to customer need, new legislation or best practice
HRA share of additional corporate posts	16,000	HRA contribution towards posts of Diversity and Equality Manager, Customer Care Manager and Safer Communities Manager
Total	279,850	

summary of savings options

31. A summary of the recommended savings options totalling £126,500 is shown in the table below:

Option	Saving (£)	Comment
HRA Common Rooms	10,000	Closure and disposal of surplus facilities
HRA Property Services	70,000	To meet Gershon Efficiency target of 2.5%
Council House Security Market Testing	40,000	Improved procurement, better estate management and demolition procedures
Car Leasing	2,500	Car leasing scheme has ceased
Community Involvement Publications	2,500	Reduction in budget required
Tenancy Enforcement Office Equipment	1,500	Reduction in budget required
Total	126,500	

32. If these growth items are accepted along with a 5% increase in rents, the 2006/07 budget results in budgeted reserves of £1,281,250 as at 31st March 2007.

garage rents and other charges

33. It is recommended to increase garage rents and other charges in line with the 5% rent increase rounded to the nearest 5p. We have had only provisional advice from Durham County Supporting People Team (DCC SPT) of the changes to be applied to unit subsidy levels which impact upon Homeline Charges as they apply to Council properties following the recent remodelling of the contracts.
34. As the Homeline charge is a legal part of the tenancy agreement, we are required to give four weeks notice of any rent increase. Approximately 75% of Homeline customers in Council properties have their charge fully rebated by support from DCC SPT.

35. It is therefore recommended that we provisionally adopt charges based upon the indicative unit subsidy levels proposed by DCC SPT for Homeline customers who are Council tenants. Upon notification of the approved unit subsidy levels from DCC SPT, the charge will be amended accordingly if required and customers given the statutory four weeks notice of the subsequent change. Due to minor changes in the service levels provided to Homeline customers from 1st April 2006, no ready comparison can be made between the current year and proposed 2006/07 charge. The effect is given below –

Property Type	2005/06	Proposed 2006/07
Garage	£4.96 (weekly) – 49 wks	£5.21 (weekly) – 49 wks
Garage site	£51.70 (annual)	£54.29 (annual)
Community Centres:		
Elderly & resident associations	Free	Free
Other	£12.60 (hour) *	£13.23 (hour) *
Day rate	£37.80	£39.69
Half Day Rate (4 hours)	£23.10	£24.26
Building Society References	£57.75	£75.00
Council Homeline:		
Homeline – Lifeline	£3.01 (weekly) – 49 wks	£3.50 (weekly) – 49 wks
Homeline – Sheltered	£8.06 (weekly) – 49 wks	£6.00 (weekly) – 49 wks
Homeline – Integral	£12.82 (weekly) – 49 wks	£8.50 (weekly) – 49 wks
Private Homeline (lifeline):		
Housing Associations	£2.77 (weekly) – 52 wks	£3.50 (weekly) – 52 wks
Private	£4.05 (weekly) – 52 wks	£4.26 (weekly) – 52 wks
Additional Monitoring	£2.00	£2.10
Additional Visit (once per week)	£2.70	£2.85

* £4.41 for each hour thereafter

conclusion

36. If all growth and savings options highlighted above were accepted amounting to a net cost of £153,350, a balance of £1,281,250 would result as at 31st March 2007. This meets the proposed requirement to have a minimum working balance of £1.25m.
37. 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 5% 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 24 plus the growth items and savings items listed in paragraphs 30 and 31 respectively are approved.

3. Changes to garage rents and other charges as listed in paragraph 35 be approved.
4. Changes to Homeline charges upon confirmation of unit subsidy levels from DCC SPT may be amended by the Directors of Central Resources and Housing Services using delegated powers in consultation with the Chairs of Central Resources and Housing Services.

Officer responsible for the report

Gary Ridley & Michael Laing
Directors of Central Resources/Housing Services
Exts 227/281

Authors of the report

Stuart Reid
Head of Finance
Ext 258
