

**Report to:** Extraordinary District Council of Easington

**Date:** 23rd February 2006

**Report of:** Director of Finance & Corporate Services

**Subject:** Housing Revenue Account (H.R.A.) Budget for 2006/2007 & Future Years

**Ward:** All

## **1. Purpose of the Report**

- 1.1 The purpose of this report is to seek the Council's approval for the H.R.A. budget and East Durham Homes (EDH) HRA Management Fee for 2006-2007 together with noting the position for future years' budgets. The Council is also asked to agree the weekly dwelling average rent increase for 2006-2007.

## **2. Consultation**

- 2.1 In preparing the report I have consulted with the Head of Financial Management, the Executive, the Scrutiny Management Board, the Management Team and budget holders. All Members and Trade union officials have had opportunities to attend budget briefings and in addition the Tenants and Residents Federation have been consulted. The proposals have been placed on the Council's Web site. The report has also been distributed to EDH and includes details on the agreed HRA Management Fee with them.

## **3. Background**

- 3.1 In determining the budget I have taken into account the cumulative Central Government weekly average 'limit' dwelling rent and broadly aligned the budget to be deliverable within this limit. In determining the budget we have retained a minimum prudent level of reserves of £800,000.
- 3.2 It is proposed that the Council endorse this minimum level of reserves of £800,000 and that strict financial stability is adhered to by all budget holders, however there will be a continual need for this level to be strictly and closely monitored.
- 3.3 Taking into account the financial performance of the H.R.A. in 2005/2006, as reported to meetings of the Executive during this financial year, and the measures described later in those reports, together with the financial implications of the efficiency plans and 3 star strategy for EDH and the Council, it is estimated that the revised H.R.A. reserves at 31<sup>st</sup> March 2006 (December 2005 monitor) will be around £2.6M and at 31<sup>st</sup> March 2007 they are estimated to be around £1.75M.
- 3.4 The Central Government have stated that they anticipate that all dwelling rents nationally, on average, will increase for 2006/2007 by 4.7% approx. Members may recall that, for this year (2005/6), our average dwelling rents have parity with and are within the existing cumulative central government guidelines.
- 3.5 Our strategy for 2006/2007 has been to maintain parity with, and keep within the cumulative guideline and to do this would mean increasing all of our dwelling rents (including void properties) on average, by 4.5%, which would be within the Central Government rent increase announcement. This increase will vary depending on property type, and is as a result of continuing to introduce rent restructuring at an individual property level. This exercise particularly takes account of the results of the recent Central Government changes where they have rebased all Local Authority rents

as part of their revised rent restructuring methodologies, and therefore individual increases could fluctuate materially.

- 3.6 After allowing for a weekly dwelling average rent increase as proposed in para.3.5 and agreeing an HRA Management fee budget for EDH, the overall H.R.A. budget for 2006/2007 has been balanced with the use of £100,000 from mainstream HRA reserves.
- 3.7 If members of the Council agree to the proposal, all dwelling rents, on average, will be increased by 4.5 %, which equates to £2.21 per week.

#### **4. Position Statement and Option Appraisal**

- 4.1 In respect of the Budget for 2005/6 regular monitoring statements have been presented to meetings of the Executive and based on the December 2005 monitor, reserves at 31<sup>st</sup> March 2006 are estimated to be around £2.6M and comment on this level will follow later in the report.
- 4.2 In respect of the Budget for 2006/7 I have included for the dwelling rent increase of 4.5% as proposed in para.3.5.
- 4.3 I am pleased to report that full agreement has been reached on the EDH HRA Management Fee budget for 2006-7 in the sum of £10.698M. This has been increased as follows: -

	£000's
Fee for 2005/6	9540
Inflation	240
Revenue Maintenance	520 Transferred from Capital in 2005/6
*Environmental Costs transferred	<u>398</u>
	<u>10,698</u>

\*Prior to 1<sup>st</sup> April 2006 a Revised Delegation Agreement will be submitted to the Council for agreement, which reverts elements of environmental services responsibilities to East Durham Homes. For estimates purposes it is assumed agreement will be reached.

During the course of the 2006-7 financial year the Council will be presented with reports on the progress of the established Business Plans and the EDH three star strategy to co-ordinate and oversee the activity within these budgets.

- 4.4. Those reports will reflect the above position and action plans will need to be developed to address all the value for money issues. In addition a number of areas for potential savings and service improvements have been identified and in some cases implemented, which should greatly assist budget holders to remain within budget
- 4.5 In respect of Rent Income for 2006/7 this budget is reflective of an overall average 4.5% increase and additionally incorporates the financial effect of rent restructuring at an individual property level, together with our estimations on dwelling stock numbers. Reduced stock levels in turn reduces rent income and given the trends I have adopted a prudent approach in this area.
- 4.6 On Housing Subsidy, the Council's settlement was reasonable and acceptable when the draft proposals were received but this later worsened by £200,000 when the final proposals were received at the end of last year. Although not budgeted for, the Council has the possibility of a £700,000 windfall for 2006-7 as a result of the 10% stock adjustment factor. In addition there is a Housing Subsidy claw-back account in the sum of £400,000 to deal with future subsidy adjustments which can be significant.

- 4.7 In terms of Transitional Protection in respect of Supporting People costs for existing Council tenants in situ at 31<sup>st</sup> March 2003 members will receive a report prior to 31<sup>st</sup> March 2006 for full protection to continue and therefore I have provisionally included a sum £112,000 in respect of this. The continuance of this protection needs to be considered in the longer term and for the time being it is included in the Medium Term Financial Plan.
- 4.8 The present minimum prudent level for H.R.A. reserves is set at £800,000 and members will have noted their estimated position at 31st March 2006 at around £2.6M. After careful consideration of the financial position I am prepared to continue to suggest a minimum working limit of £800,000, provided that financial stability is retained and budget holders continue to adhere rigidly to their budgets. Whilst reserves are at their present level we do not consider that there is any further scope to utilise reserves to support the 2006/2007 mainstream budget process, particularly having cognisance of the use of reserves in future years to support the EDH three star strategy. For next financial year and future years, following a stringent risk assessment, it is firmly considered that the reserve position should be closely monitored, particularly in relation to the three star strategy. In view of this I have retained £800,000 as a minimum prudent balance.
- 4.9 It is recognised that East Durham Homes and the Council will in the future agree a business plan to sustain the account in the longer term and that may require a further drawdown of reserves. Further reports will be brought for consideration when proposals are firmed up.
- 4.10 Appendices' 1-4 set out the position the on detailed Council and EDH budgets, reserves position, the summarised H.R.A., and the H.R.A. operating account which is a Technical Accounting Statement based on the Resource Accounting framework.
- 4.11 Preliminary work has already commenced on budget projections for future years as part of our medium term plan approach and overall Budget Strategy and Appendix 5 sets out our Medium Term Plan for all Council and EDH costs and the overall outcomes on the H.R.A. will be reported to a future Council meeting for consideration. The Housing Business Plan Working Group will continue to oversee the long-term development of the Housing Business Plan and will monitor progress against the long-term financial model produced by Tribal Consultants
- 4.12 Details of the H.R.A. Prudential indicators for 2006/7 which are required under the Local Government Act 2003 are incorporated in Appendix 2/1 of the 2006/7 General Fund budget report.

## **5. Implications**

### *5.1 Financial Implications*

- 5.1.1 The financial implications are set out in the main detail of the report.

### *5.2 Legal Implications*

- 5.2.1 The budget will be prepared according to statutory requirements.

### *5.3 Policy Implications*

- 5.3.1 The budget is prepared in accordance with the Council's corporate plans and priorities.

### *5.4 Risk Implications*

- 5.4.1 A risk analysis been undertaken and actions put in place to manage those risks.

## 5.5 *Communications Implications*

5.5.1 It is proposed that the proposals are placed on the Council's Web Site and that a statement is prepared for the Local Press.

## 5.6 *Corporate Implications*

5.6.1 The proposals are aligned to all of the Council's objectives and agreed priorities.

## 5.7 *Performance Management and Scrutiny*

5.7.1 The budget strategy has been discussed with the Scrutiny Management Board, the Resources Scrutiny Committee and was approved by the Executive Committee. Expected outcomes will be measured through the Council's Performance Management process.

## 5.8 *E Government*

5.8.1 The budget addresses and resources the Council's commitment to meeting the latest E Government target for 2006

## 5.9 *Procurement*

5.9.1 The budget addresses procurement issues in order to meet government guidelines on procurement by 2006

## 5.10 *Equality and Diversity*

5.10.1 None

## **6. Conclusion**

6.1 Whilst considering this report members will have noticed throughout the report my cautious and prudent approach to the setting of next years budget which I consider is necessary particularly as the Council takes cognisance of the financial position of EDH and the implementation of the three star strategy for EDH. Further reports will be presented to the Council's Committees during the financial year together with detailed financial monitoring reports.

## **7. Recommendation**

7.1 The Council are requested to: -

7.1.1 Agree the HRA Budget proposals for 2006-7 and future years as set out in the report.

7.1.2 Agree the 2006-7 HRA management fee for East Durham Homes at £10.698M.

7.1.3 Agree the dwelling rent increase of 4.5% for 2006-7.

### **Background papers/Documents referred to in preparing the report:**

**Notification of Major Repairs Allowance and Housing Investment Programme-Govt. Office  
Regular Budget Monitoring Reports to Executive  
Budget Bids from Service Providers  
Housing Subsidy Information for 2006/7(Draft and Final Determinations)**

**HRA 2006.7**