



Civic Centre,  
Crook,  
County Durham.  
DL15 9ES  
Tel: 01388 765555 Fax: 01388 766660  
Minicom: 01388 761515 e-mail: i.phillips@wearvalley.gov.uk

---

Iain Phillips      Chief Executive

---

26<sup>th</sup> January 2007

Dear Councillor,

I hereby give you Notice that a Special Meeting of the **HOUSING SERVICES COMMITTEE** will be held in the **COUNCIL CHAMBER, CIVIC CENTRE, CROOK** on **WEDNESDAY, 5<sup>th</sup> FEBRUARY 2007** at **2.00 P.M.**

### AGENDA

1. Apologies for absence.
2. To consider the Housing Revenue Account – 2007/2008 Budget.
3. To consider the 2007/2008 Draft Housing General Fund Revenue and Capital Budget.

Yours faithfully

**Chief Executive**

Members of this Committee:      Councillors Bailey, Mrs Burn, Mrs Douthwaite, Ferguson, Gale, Harrison, Mrs Jones\*, Kay, McKellar, Murphy\*, Mrs. Pinkney, Mrs Seabury, J. Shuttleworth, Sinclair, Stonehouse, Strongman and Mrs Todd

\*ex-officio, non-voting capacity

Chair:                                      Councillor Gale

Deputy Chair:                              Councillor Sinclair

TO:      All other Members of the Council for information  
            Management Team

## SPECIAL HOUSING SERVICES COMMITTEE

5 FEBRUARY 2007

---

Report of the Strategic Director for Resource Management and Strategic Director for the Community

### **HOUSING REVENUE ACCOUNT– 2007/08 BUDGET**

#### **purpose of the report**

1. To inform Members of the draft departmental revenue and capital budgets for 2007/08 in respect of the Housing Revenue Account (HRA) including proposals for rent levels and other fees and charges to be submitted to the Policy and Strategic Development Committee for consideration.

#### **background**

2. 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.
3. In the last three years, the HRA has been put on a more stable financial footing due in part to sound performance and careful financial management. Furthermore, changes to the housing subsidy finance system have been favourable to the Council in recent years resulting in significant additional resources. However, the 2007/08 subsidy settlement has been less generous indicating that the financial climate will become tougher in future years.
4. Latest estimates indicate a cumulative HRA balance of £1,540,120 as at 31<sup>st</sup> March 2007 that can be used to support expenditure in 2007/08. This compares to a cumulative balance for the HRA as at 31<sup>st</sup> March 2006 of £1,227,000. Therefore the financial position is estimated to improve by £313,120 during 2006/07. These figures exclude any surplus or deficit incurred by Dale and Valley Homes (D&VH) which is accounted for separately from the HRA.

#### **management fee**

5. On 3<sup>rd</sup> April 2006 D&VH became responsible for the management and maintenance functions previously performed by the Council in its role as a social landlord. Consequently, a management fee is payable to D&VH principally from the HRA for the functions that they perform on behalf of the Council.
6. Indicative figures for the management fee payable have been agreed with D&VH for the period 2007/08 – 2009/10. The fee is subject to change by joint agreement of the Council and D&VH. The sums agreed will sustain the financial viability of the HRA in the medium term whilst also providing income stability for D&VH.

## **hra subsidy**

7. 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 – rental constraint allowance)

## **rental income**

8. 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 7%. 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.
9. Taking into account reducing stock numbers, this results in a gross loss of subsidy between 2006/07 and 2007/08 to the Council of £336,000.

## **management allowance**

10. The Council receives an allowance per property to cover the management of the housing stock. Wear Valley will receive an increase of 3.8% or £17.58 per property from 2006/07 to 2007/08.
11. In total the Council will receive £2,837 less in 2007/08 compared to 2006/07. The Council is 115th highest out of 217 authorities by level of management allowance received per property.

## **maintenance allowance**

12. 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 2.5% or £21.68 per property.
13. In total the Council will receive £58,985 less in 2007/08 compared to 2006/07. The Council is 158th highest out of 217 authorities by level of maintenance allowance received per property.

## **debt charges**

14. The subsidy paid for debt charges results in a beneficial impact of approximately £6,000. 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 constraint allowance**

15. The Government has stated in the subsidy settlement that rents should rise by no more than 5% on average. However, applying the Government's rent restructuring formula results in average increases in excess of 5%. The Government has recognised the need to compensate authorities for keeping average rent increases to 5% through the subsidy system by payment of a rental constraint allowance. Unlike other elements of subsidy, it is not pre-fixed before the start of the year. The Government may alter the level of allowance paid upon receipt of information from authorities during the year as part of the subsidy claim process. Current indications are that the rental constraint allowance received by Wear Valley will be £112,000 but this is subject to change.

## **subsidy summary**

16. In total, the impact of the subsidy system will decrease resources available to the HRA by £280,000 from 2006/07 to 2007/08.

## **rent restructuring**

17. 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.
18. 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 2007/08. However as mentioned earlier, subsidy withdrawn from the Council is based upon rents increasing by 7% and the application of a rent restructuring formula which would result in average increases above 5%.
19. Government requires the Council through rent restructuring to set an average rent increase of 5%. The Council is also not permitted to increase the rent for an individual tenant by more than 4.1% plus £2 per week. Average increases above 8% would result in a financial penalty to the Council from withdrawal of rent rebates subsidy. This means that for every additional £1 increase in rent above 8%, the Government would claw back £0.59. Consequently, the options of increasing rents by other than 5% assumed by rent restructuring are limited.

## **rental income and voids**

20. 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.

21. Whilst “difficult to let” properties have been demolished and turnaround times for letting properties have improved, void rates continue to be relatively high at around 3.5%. This is a major drain upon the HRA finances. An increase in the void rate of 1% costs the Authority £112,000 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 £168,000.

#### **bad debts**

22. 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.
23. A provision of £446,149 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 no increase in the bad debt provision that reflects improvements in rent collection.

#### **draft budget**

24. 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 2006/07 the HRA held balances of £1,227,000. In setting the 2006/07 budget, a minimum working balance of £1,250,000 was considered necessary. Estimated reserves to carry forward to 2007/08 are £1,540,120.
25. 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. As a young organisation, the future financial health of D&VH cannot be forecast with a high level of certainty. The disappointing 2007/08 subsidy settlement also compounds the need to be cautious about the future financial position of the HRA.
26. My judgement is that the Council should budget for a minimum reserve on the HRA of £1,500,000 as at the end of 2007/08 declining to approximately £1,000,000 by 2009/10. This level of reserve is in line with the average per property across all County Durham districts. This will provide a sensible cushion for the HRA as protection against unforeseen costs and allow reasonable levels of investment in 2007/08 and beyond through the management fee payable to D &VH and provide a sound base from which to invest in future improvements to the service.
27. The draft budget is shown in the table below:

	<b>Actual 2005/06</b>	<b>Original Budget 2006/07</b>	<b>Revised Budget 2006/07</b>	<b>Draft Budget 2007/08</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Supervision & Management	2,676	599	531	647
Repairs & Maintenance	2,930	-	-	-
Management Fee	-	5,517	5,517	5,737
Debt Charges	1,799	1,780	1,764	1,785
Housing Subsidy	2,852	2,812	2,930	3,210
Bad Debts	17	100	50	-
<b>Total Expenditure</b>	<b>10,274</b>	<b>10,808</b>	<b>10,792</b>	<b>11,379</b>
Rental Income	(10,895)	(10,870)	(11,070)	(11,375)
Interest on balances	(45)	(50)	(35)	(30)
<b>Total Income</b>	<b>(10,940)</b>	<b>(10,920)</b>	<b>(11,105)</b>	<b>(11,405)</b>
<b>Deficit/(Surplus)</b>	<b>(666)</b>	<b>(112)</b>	<b>(313)</b>	<b>(26)</b>
<b>Balance brought forward</b>	<b>(561)</b>	<b>(1,120)</b>	<b>(1,227)</b>	<b>(1,540)</b>
<b>Balance carried forward</b>	<b>(1,227)</b>	<b>(1,232)</b>	<b>(1,540)</b>	<b>(1,566)</b>

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

#### **medium term position**

29. The forecasted financial position of the HRA is as below. The table takes into account:

- (i) future estimated pay awards and pension cost increases
- (ii) changes to the management fee payable to D&VH
- (iii) estimated number of right to buys and demolitions
- (iv) average rent increases of 5%
- (v) future changes to subsidy in line with the current year's settlement

	<b>Draft Budget 2007/08</b>	<b>Draft Budget 2008/09</b>	<b>Draft Budget 2009/10</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Total Expenditure	11,379	11,766	12,231
Total Income	(11,405)	(11,603)	(11,845)
Deficit / (surplus)	(26)	163	386
Balance brought forward	(1,540)	(1,566)	(1,403)
Balance carried forward	(1,566)	(1,403)	(1,017)

## rent increases

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

	0%	2%	5%	10 %
Average Increase Per week	-	£0.97	£2.41	£4.82
(loss)/gain in rental income	(£530,000)	(£320,000)	-	£530,000
Loss of Subsidy	-	-	-	£124,000
Net (loss)/gain in rental income	(£530,000)	(£320,000)	-	£406,000

31. The current average weekly rent is £48.25. Any increase above 8% would breach the Government guideline mentioned in paragraph 17 resulting in a loss of subsidy.

## summary of service development options

32. Service development and cost improvement options in respect of functions for which D & VH are responsible area matter for the board of D & VH and do not impact directly upon the HRA. There is one recommended service development option that applies to the HRA that is shown in the table below:

Option	Additional Growth (£)	Comment
Additional 2 Street Wardens (50% share)	25,000	To provide an additional warden in recognition of public wishes as expressed through budget consultation

33. If this service development item is accepted along with a 5% increase in rents, the 2007/08 budget results in budgeted reserves of £1,541,000 as at 31<sup>st</sup> March 2008.

## garage rents and other charges

34. It is recommended to increase garage rents and other charges in line with the 5% rent increase rounded to the nearest 5p. The exception is building society references, which is frozen due to the large increase in the previous year. The proposed charges are shown below:

Property Type	2006/07	Proposed 2007/08
Garage	£5.21 (weekly) – 49 wks	£5.45 (weekly) – 49 wks
Garage site	£54.29 (annual)	£57.00 (annual)
Community Centres:		
Elderly & resident associations	Free	Free
Other	£13.23 (hour) *	£13.90 (hour) *
Day rate	£39.69	£41.65
Half Day Rate (4 hours)	£24.26	£25.45
Building Society References	£75.00	£75.00

\* £4.60 for each hour thereafter from 1/4/07.

## capital programme

35. The following table shows the proposed capital programme for the department for 2007/08.

<b>Scheme</b>	<b>£000</b>	<b>Commentary</b>
Structural Repairs	77	Legal obligation to address structural defects and install new damp courses
Major Repairs Allowance	2,650	To make council properties reach decent homes standard with updated modern facilities
Electrical Upgrades to Domestic Properties	285	The Council owns a number of properties where the electrical systems are past their recommended lifespan. Accordingly to ensure customers health and safety are not put at risk there is a requirement to re-wire or upgrade a number of properties
Demolition of surplus housing stock	100	Continuation of demolition of unwanted, surplus housing stock. This has proven successful in removing targets for anti social behaviour, vandalism and providing extra sites for future development.
Asbestos Surveys	30	Survey and identification of asbestos in Council owned dwellings. Under the Asbestos regulations 2002, the authority has a duty to identify all asbestos containing materials, record the location and condition, undertake a risk assessment and prepare and implement a plan to manage the risks.
<b>Total</b>	<b>3,142</b>	

## conclusion

36. If the service development bid highlighted in paragraph 32 were accepted amounting to a net cost of £25,000, a balance of £1,541,000 would result as at 31st March 2008. This meets the proposed requirement to have a minimum working balance of £1.50m.
37. The proposals relating to the revenue and capital budgets as well as rent levels and fees and charges have been subject to scrutiny by a cross-section of officers and are considered adequate to meet the Council's priorities.

## RECOMMENDED

1. Members submit the service development bid, fees and charges, and capital programme proposals detailed within the report to Policy and Strategic Development Committee for consideration.

---

### **Officers responsible for the report**

Gary Ridley & Michael Laing  
Strategic Directors for Resource  
Management/Community  
Ext 227/281

### **Authors of the report**

Gary Ridley & Michael Laing  
Strategic Directors for Resource  
Management/Community  
Ext 227/281

---

## **SPECIAL HOUSING SERVICES COMMITTEE**

5 FEBRUARY 2007

---

### **Report of the Strategic Director for Resource Management 2007/08 DRAFT HOUSING GENERAL FUND REVENUE AND CAPITAL BUDGET**

#### **purpose of report**

1. To inform Members of the draft Housing Services General Fund Revenue budget for 2007/08 and to seek Member approval to progress the draft budgets to Policy and Strategic Development Committee for consideration.

#### **background**

2. Members will be aware of the Council's budget setting process that has developed in recent years. In particular, Members will be aware of:
  - (i) The need to invest in Council priorities as outlined in the Council Plan.
  - (ii) The need to create room for manoeuvre within existing departmental resources in order to fund priorities and service improvements. This has been achieved through exerting continued downward pressure on fixed and unit costs.
  - (iii) The need to invest in the capital infrastructure of both the Council and Wear Valley in pursuance of corporate objectives.
3. This report sets out the department's draft 2007/08 revenue and capital budget including cost improvements and service development bids. Cost improvement, service development and capital bids have been assessed by an inter-departmental group of Officers who have followed an agreed scoring process. This process takes into account issues such as links to corporate objectives and corporate themes, degree of external funding, impact upon performance etc.

#### **draft 2007/08 revenue budget**

4. The table below shows the draft Housing General Fund budget for 2007/08 prior to consideration of service development and cost improvements bids. It has been produced after taking into account the following:
  - (i) Known and anticipated pay awards, based on existing establishment levels.
  - (ii) Increases in contractual payments where appropriate.
  - (iii) Known external funding.

<b>Cost Centre Description</b>	<b>Estimate 2007/08 (£000)</b>
Homelessness	57
DCLG Homelessness Scheme	5
CCTV	14
Street Wardens	140
Homeline	103
Tenancy Support	(6)
Depots	8
Vehicle & Plant	(2)
Premises – Royal Corner	(5)
Other Offices	9
Civic Centre	14
Old Bank Chambers	(2)
<b>Total</b>	<b>335</b>

### cost improvements

5. The following cost improvement is proposed as the departmental contribution to creating scope for priorities as well as improving the efficiency of the department.

<b>Scheme</b>	<b>£000</b>	<b>Commentary</b>
Homeline	90	Budget no longer needed due to service being transferred to Sedgefield Borough Council
<b>Total</b>	<b>90</b>	

### service development bids

6. The following service development bids are proposed in order to improve the achievement of both departmental and corporate aims and objectives.

<b>Scheme</b>	<b>£000</b>	<b>Commentary</b>
Age Concern Contribution	13	Contribution to Age Concern to partly fund a Handyman service
2 Additional Street Wardens (50% charge to HRA)	25	Employment of 2 additional Street Wardens within the District
Contribution to post of Durham Housing Market Director	11	Wear Valley contribution to the creation of a Housing Market Director across Durham to ensure a strategic approach to developing and responding to regional housing issues
<b>Total</b>	<b>49</b>	

### capital programme

7. The following table shows the proposed capital programme for the department for 2007/08.

<b>Scheme</b>	<b>£000</b>	<b>Commentary</b>
Stock Condition Survey	143	To update the Council's stock condition survey
<b>Total</b>	<b>143</b>	

### **conclusions**

8. The above proposals represent the Department's anticipated resources for 2007/08. They have been subject to scrutiny by a cross section of the Authority's officers and are considered adequate with which to deliver the Council's priorities. The cost improvements are considered achievable and the revenue bids are considered deliverable.
9. The delivery of the above will be subject to regular monitoring at both Officer and Member level throughout 2007/08.

### **RECOMMENDED**

1. Members submit the cost improvements, service development bids and capital programme proposals detailed within the report to Policy and Strategic Development Committee for consideration.

---

#### **Officer responsible for the report**

Gary Ridley  
Strategic Director for Resource  
Management  
Ext 227

#### **Author of the report**

Gary Ridley  
Strategic Director for Resource  
Management  
Ext 227

---