

Appendix C

Detailed Explanation of certain Issues proposed in the Report:-

General

The HRA Budget is presented at Appendix A. These figures incorporate the HRA element of General Fund savings proposals and pressures as detailed in a separate report on this agenda. The inflation assumptions are detailed in the notes to the budget in Appendix A. Revenue Leasing Charges have been incorporated in respect of the proposed 2004/05 HRA Leasing Forward Plan as detailed at Appendix B. The effects of the ongoing restructure of the Housing Division and the Council's Changing Gear Policy have been incorporated in the HRA Estimates. The Restructuring of the Housing Division will reduce the ongoing direct costs to the HRA, but the HRA will receive new recharges from the Customer Service Centre etc. It is anticipated that these initiatives will deliver considerable efficiency savings to the HRA and will achieve overall cost savings in the longer term.

Members are reminded that there is a legal requirement to set a Housing Revenue Account Budget in balance and it is proposed that a prudent minimum balance of approximately £300,000 be maintained.

Rent Setting

It is proposed that the Average HRA Rent for 2004/05 be set at the Governments Rent Limit. The following options have been considered but are not proposed: -

- i) The Average Rent could be set at a level below the Government's Limit Rent. However, a 3.96% increase has been applied to the Guideline Rent, within the HRA Subsidy System, which is used to calculate Subsidy Withdrawal. Increasing the Actual Rent at a lower percentage will put further pressure on balancing the HRA.
- ii) The Average Rent could be increased above the Governments Rent Limit but the HRA would be subject to Rent Rebate Subsidy Limitation, which would result in the loss of approximately 45p in the pound, on any increase above the Limit.

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Draft HRA Subsidy Determinations 2004/05

The General Formula - The Government's calculation of SBC's Subsidy results in a negative figure that has to be paid over to the Government in order that it is redirected to those authorities that are considered to be in "deficit". In 2004/05 SBC's overall negative subsidy position, excluding the major repairs allowance, will be some £16million, £1.2million less than in 2003/04. The main components of this calculation and the comparison to 2003/04 are as follows:-

	2003/04	2004/05	Change
	£k	£k	£k
Notional Rent withdrawn	(24,362)	(24,960)	598
Interest withdrawn	(1,424)	(1,328)	(96)
Management Allowance	3,297	3,272	25
Maintenance Allowance	5,210	6,983	(1,773)
Anti Social Behaviour Allowance	0	1	(1)
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Net Subsidy Withdrawal	17,279	16,032	(1,247)

The increase in the withdrawal of notional rent largely reflects the effects of the Governments Rent Restructuring policy and annual increases of this level are likely over the remaining seven years of the Restructuring period. It is this effect that continues to put pressure on the HRA. The substantial increase in the Maintenance Allowance mainly reflects the changes in the method of allocation proposed for 2004/05, together with an underlying general real increase in allowances as proposed in the Governments spending review.

The interest withdrawal element of the subsidy calculation effectively takes away from SBC the interest earned by the HRA on accumulated Housing Capital Receipts. Because this figure is preset in the Subsidy Determinations for the year ahead, the HRA is effectively exposed during the year to any fluctuations in interest rates. In the figures at Appendix A it can be seen that the HRA has suffered a significant loss of interest in the 2003/04 Probable Budget because of reductions in interest rates earlier in the year. With the recent increase in interest rates the position is estimated to recover in 2004/05 and any further increase would be to the benefit of the HRA.

There is provision within the General Subsidy Formula for 2004/05 for the payment of a new Anti Social Behaviour Allowance, which has been announced in the Final Determinations as a flat rate allowance payable to all Authorities of £1,000. This new allowance has now been reflected in the 2004/05 HRA Budget.

Major Repairs Allowance (MRA) – The Major Repairs Allowance is paid with the HRA Subsidy. It is a contribution to major capital repairs of the Housing Stock. The MRA for 2004/05 has increased by £622k to £6,018k and this should assist the Housing Capital position.

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Housing Capital Finance – Significant changes to Housing Capital Finance occur in 2004/05 with the introduction of the Pooling of Housing Capital Receipts. As a Debt Free Authority Stevenage will retain percentages of its Right to Buy Capital Receipts for the first three years of pooling. But it had been unclear whether, apart from the transitional arrangements for Debt Free Authorities, Pooled Receipts would be redistributed to Councils by way of Capital Grant or through the HRA Revenue Subsidy System. The Final Determinations indicate that the latter is proposed, giving revenue support to capital funding. Within the draft figures it appears that there is effectively some £25k to support capital funding. This sum could be applied as a contribution to capital or would be the source to repay any capital borrowing. Whilst not a particularly large figure this year the size of this funding will obviously grow with the cumulative effect year on year. This sum has therefore been set aside within the HRA figures at Appendix A pending a detailed assessment of the impact of the new capital financing regime and the implications of Prudential Borrowing.

Transitional Negative Subsidy – There is reference in the Final Determinations to the possibility of the Government Funding two thirds of the Transitional Negative Subsidy and only one third having to be funded from the MRA. This will assist the Capital resources position.

Rent Rebates

The Final Determinations confirm that Rent Rebates will be reimbursed at 100% when paid within the General Fund from 2004/05. The likely net overall impact on the General Fund will depend upon the actual level of Benefit overpayments that occur in 2004/05 and the extent to which these can be recovered from claimants, compared to the level of the incentive grant that the Government pays to encourage recovery of overpayments. The Final Determinations propose that, where these factors result in a net positive or negative impact on the General Fund, Authorities may seek to charge this impact back to the HRA in 2004/05 and charge back up to half of the impact in 2005/06. The HRA Budget as currently drafted assumes that the overall impact of overpayments is neutral and that no adjustment back to the HRA will be made. The position will be kept under review as further clarification of the details of the changes become available and in the light of actual performance on the recovery of overpayments in 2004/05.

The New Subsidy Arrangements also refer to a contribution from the Government towards the funding of the War Widows discretionary benefits. SBC currently exercises its discretion related to War Widows benefits and funds this from the General Fund.

Service Charges

In the 2002/03 HRA Budget the Council introduced a range of Service Charges for Tenants. In June 2002 the Government issued a consultation paper with regard to proposals for the treatment of Service Charges where they are un-pooled from HRA Rents. The consultation paper proposals were confirmed in the Subsidy Determinations for 2003/04. The implications on the HRA, of these changes in the treatment of Service Charges, are very complex.

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Authorities are encouraged to separate Service Charges out from the pooled rent and some general, although no specific, guidance is given. Where Service Charges are un-pooled, 80% (in 2003/04), 70% (in 2004/05) of the value of the un-pooled Service Charges will be added to the Average Rent figure in the Government's calculation of Rent Rebate Subsidy Limitation. The percentage will reduce by 10% per annum giving Authorities an increasing incentive to separate out Service Charges in future years. The base year for un-pooling comparisons is 2001/02.

In the 2002/03 HRA Budget the Council had introduced a range of Service Charges for Tenants in Flats and Sheltered Accommodation and a Charge in respect of the NTL TV Relay System. The value of these un-pooled Service Charges was estimated at some £560k. At that time there was nothing written in the Subsidy Rules regarding the adjustment of the Average Rent and as such Officers are confident that the rules introduced with the 2003/04 Subsidy Determinations cannot be applied retrospectively to 2002/03. However, in 2003/04 the new rules meant that the HRA would be subject to Rent Rebate Subsidy Limitation on 80% of the £560k of Service Charges introduced in 2002/03, at a rate of approximately 45p in the pound i.e. up to £200k. This level of limitation would reduce by 10% per annum over subsequent years.

It would have been possible to seek to avoid limitation by either removing the Service Charges or limiting the general increase in the 2003/04 Rents. However, reductions in income at Gross levels (£560k of Service Charge income or some £450k of Rent income) would have had to be foregone in order to avoid the Rent Rebate Subsidy Limitation of £200k in 2003/04. This would have put further pressure on balancing the HRA.

Because of the significant losses of income that would otherwise have been incurred by the HRA it was proposed for 2003/04 that the Council maintain the Service Charges that it introduced in 2002/03 and continue to increase the general level of Rents up to the Government's Rent Limit. As a result, the Council was unfortunately put in the position of being subject to Rent Rebate Subsidy Limitation of some £200k, because of the Government's subsequent change in its Subsidy rules. However, as previously stated, this limitation is reducing at 10% per annum over future years. The figure for limitation at 70% on the Service Charges originally introduced in 2002/03 has been incorporated in the Estimates at Appendix A.

2002/03 was the first year of a proposed three-year phasing in of a number of Service Charges. Because of the change in the Subsidy rules it was proposed that no further Service Charges be phased in for 2003/04 and no inflationary increase be applied to the 2002/03 Service Charges, thus avoiding incurring even higher levels of Rent Rebate Subsidy Limitation. The reduction in the taper on Rent Rebate Subsidy Limitation has only reduced from 80% to 70% in 2004/05 and the Council would therefore still be subject to quite significant levels of Limitation on any further Service Charges. It is therefore, again proposed that the second year of phasing in of Service Charges not be applied in 2004/05 and no inflationary increases be applied to the original Charges.

Officers will continue to review the Service Charges policy in light of the Government's guidance and bring forward proposals at a future date for the further un-pooling of Service Charges, as appropriate, and taking account of the 10% per annum taper in the limitation.

The Government does expect that the combined increase in Rent and un-pooled Service Charges for an individual property should be capped at RPI+1/2%+£2.