

**Meeting:** Executive

Portfolio Area: Housing

**Date:** 26th January 2005

**HOUSING REVENUE ACCOUNT (HRA) BUDGET PROBABLES 2004/05 & ESTIMATE 2005/06**

(Chief Officer Board)

**KEY DECISION**

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**1 PURPOSE**

- 1.1 To approve the 2004/05 Probable and 2005/06 Estimate Budgets for the Housing Revenue Account.
- 1.2 To recommend to Council rent increases for 2005/06 in respect of dwellings and garages.

**2 RECOMMENDATIONS**

- 2.1 That the following recommendations be made to Full Council: -
  - 2.1.1 That the Housing Revenue Account estimates for 2004/05 Probable showing a net deficit of £372,910 be approved, as detailed in Appendix A.
  - 2.1.2 That the Housing Revenue Account 2005/06 Estimates showing a net surplus of £156,960 be approved, as detailed in Appendix A.
  - 2.1.3 That the rents of HRA dwellings be increased, with effect from the week commencing 4<sup>th</sup> April 2005, by 4.03% and increased or decreased by the Rent Restructuring figure determined for each dwelling in accordance with the Government's National Rent Formula, subject to the Government's rent cap applicable to each property as detailed in paragraph 4.2.3.
  - 2.1.4 That the further phasing in of tenant Service Charges not be implemented in 2005/06 and no inflationary increases be applied in 2005/06 to those tenant Service Charges introduced in 2002/03.
  - 2.1.5 That the increases in ancillary fees and charges, with effect from 4<sup>th</sup> April 2005, as detailed in Appendix B, be approved.

- 2.1.6 That the Executive proposes a Contingency Sum in the Budget and Policy Framework for 2005/06 of £300,000 for the HRA.
- 2.1.7 That the rent of garages be increased by £0.36p per week (plus VAT where applicable) from 4th April 2005.
- 2.2 That the Executive notes and accepts that the Council may, at its discretion, agree to vary the proposed HRA in the course of its consideration of that budget.

### **3 BACKGROUND**

- 3.1 At its meeting on 16th December 2004 the Executive agreed the draft 2004/05 Probable and 2005/06 HRA Budgets, incorporating the proposed rent increase. HRA 2005/06 Forward Plan proposals were also approved, but the Leaders recommendations to the Executive rejected officer proposals to increase Tenant Service Charges that were introduced in 2002/03.
- 3.2 Following this meeting the report has gone through the scrutiny process. At its meeting on 16<sup>th</sup> December 2004, Housing and Wellbeing Scrutiny Panel resolved that “the draft Housing Revenue Budget – Probables 2004/05 and Estimates 2005/06 – be noted.” The Housing and Wellbeing Scrutiny Panel made comments regarding the difficulty of adequately scrutinising a budget of the magnitude and complexity of the HRA during the Budget Process. This has been acknowledged and the Scrutiny Overview Committee is putting in place arrangements to allow for the ongoing scrutiny of the HRA, General Fund and Capital Budgets by Scrutiny Panels on a thematic basis throughout the year. FOSTA have been consulted on the HRA Estimates.
- 3.3 As explained in the December Report the combination of two years of favourable Subsidy Determinations, budget underspends from 2003/04 and the removal of Revenue Contributions to Capital Outlay (RCCO) from the base budget have put the HRA in an apparently “healthy” position currently. However, caution has been expressed for the medium term forecast. The HRA will remain under continuing pressures for the foreseeable future and if no other action were taken it is likely that the current “healthy” level of HRA balances would be eroded over a relatively short period of time. An updated HRA Business Plan is therefore required, taking into account the Stock Condition Survey that is currently being produced. This would allow the Council to consider and make decisions on investment in the stock and improvements in the service, together with savings proposals that will combine to project the sustainability of the HRA into the medium and longer term.
- 3.4 Pending receipt of the Stock Condition Survey and production of the comprehensive HRA Business Plan the report to the December Executive proposed that a cautious approach to the 2005/06 Budget setting process be adopted. It considered primarily one-off Priority 1 Forward Plan proposals that would allow some essential service improvements to be progressed in the short term. The ongoing level of commitments arising from these plans would have to be assessed in the context of sustainability for the longer term within the comprehensive HRA Business Plan.
- 3.5 The HRA 2004/05 Probable and 2005/06 Estimate Budgets are attached at Appendix A. These incorporate the Final Subsidy Determinations as announced on 17<sup>th</sup> December 2004 and other updated figures as detailed below. The overall position on the HRA shows an improvement on the figures reported to the December Executive.

- 3.6 Members will recall that in 2003/04 the Council introduced the collection of Rent and Service Charges over a 50 week period. All of the weekly figures referred to in this report are based on a standard 52 week year.
- 3.7 The format of the HRA Estimates at Appendix A have been simplified to eliminate various technical accounting adjustments. A set of Estimates, including all the required adjustments in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Best Value Accounting Code Of Practice (BVACOP), have been placed in the Members Library, for information.

## **4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS**

### **4.1 Final HRA Budget**

4.1.1 The Final HRA 2004/05 Probable and 2005/06 Estimate Budgets as presented at Appendix A incorporate the following amendments since the Draft presented to the Executive in December 2004: -

- The Final HRA Subsidy Determinations, were received on 17<sup>th</sup> December 2004. These reduced the Maintenance Allowance slightly and increased marginally the proposed level of inflation in the Rent Restructuring calculation.
- Updates to Central Establishment Charges and Support Services Recharges have been incorporated. These updated recharges show reductions on the figures that had to be estimated early in the budget process for the December report.
- Following on from the positive ballot result in respect of the Small Scale Voluntary Transfer (SSVT) of the Stonyhall Estate, the overall net cost of some £180k in 2005/06, that was included in summary in the December report, has now been incorporated in detail in the respective HRA Budget areas.
- The 2005/06 HRA Revenue Forward Plan items, as approved at the December Executive, have been incorporated in detail in the respective HRA Budget areas.
- Other minor budget adjustments.

The overall net impact of these changes has improved the position of the HRA. The HRA now has a net surplus of £156,960 in the 2005/06 Estimates and an estimated balance carried forward at 31<sup>st</sup> March 2006 of £1,407,940.

### **4.2 Final Rent Setting**

4.2.1 The Final 2005/06 HRA Subsidy Determinations have slightly increased the proposed level of general inflation in the Rent Restructuring calculation from 4.02% in the Draft Determinations to 4.03% in the Final Determinations. Application of this fractionally higher inflation figure is marginal and in some cases is likely to be absorbed in roundings. Overall the additional increase will generate less than £3,000 additional rental income and this will be largely offset in the HRA Subsidy calculation. Since the introduction of the Government's Rent Restructuring Policy in 2002/03 Stevenage's Average Rent has been set at the level of the Government's Rent Limit. The Final Determinations propose the Council's Rent Limit for 2005/06 at £63.18. The final proposals for the 2005/06 Rent Increase can therefore be summarised as follows: -

2004/05 Government Limit Rent	= £60.64 (re-based)
2005/06 Government Limit Rent	= £63.18
Increase in Average Rent	= £ 2.54 4.19%
Average Rent Restructuring Increase	= £ 0.10
Balance - General Inflationary Increase	= £ 2.44 4.03%

4.2.2 It is proposed that for 2005/06 the Average Rent be set applying the Government's Rent Limit of £63.18. In practice, individual rents would be calculated by applying a 4.03% increase to the 2004/05 Rent, plus or minus the individual Rent Restructuring figure calculated in accordance with the Government's Formula for the fourth year of Rent Restructuring.

4.2.3 The Government intends that increases and decreases in the Rents of individual properties between 2004/05 and 2005/06 should continue to be capped at RPI+1/2%+£2. It is proposed that the Council will continue to implement this cap. It is anticipated that the cap will apply to very few individual properties in Stevenage and therefore result in a negligible amount of rent loss to the HRA overall.

### **4.3 Final HRA Subsidy Determinations 2005/06**

4.3.1 The Final HRA Subsidy Determinations 2005/06 were issued on 17<sup>th</sup> December 2004 and largely confirmed the figures in the Draft Determinations issued in November 2004. The Final Determinations amended the draft figures slightly by reducing the Maintenance Allowance by some £13k and increasing the Notional Rent Income withdrawal figure, although this is offset by the increased Rental Income as explained at paragraph 4.2.1 above. The Final Determinations also reduced the Major Repairs Allowance figure by some £21k.

### **4.4 Significant Issues for the 2005/06 HRA Budget, but which have not varied since the Draft Report to December Executive**

#### **4.4.1 Supporting People**

4.4.1.1 The funding position with regard to the Supporting People arrangements remains unclear. The Government has indicated that a 7% reduction can be anticipated in available Supporting People funding nationally for 2005/06. It would be expected that the County Council would have to pass such a reduction on to service providers, although the mechanism by which this would be achieved is not clear. In the face of such uncertainty the HRA Supporting People Budgets have been prepared on a cautious basis. The grant income from County has been estimated at £600k for the 2004/05 Probables i.e. the same level as the 2003/04 Outturn. A reduction of some 7% to £560k has currently been assumed, on a prudent basis, for 2005/06.

4.4.1.2 The use of the Supporting People windfall in the Probable Estimates is as approved in the 2004/05 Original Estimates, with £512k being applied to Decent Homes expenditure and the balance funding one-off costs associated with the Housing Restructure. For 2005/06 it is assumed that the £560k of grant funding will be applied to Decent Homes.

#### **4.4.2 Small Scale Voluntary Transfer of the Stonyhall Estate**

4.4.2.1 A positive ballot result in respect of the SSVT of the Stonyhall Estate to William Sutton Housing Association was announced on 10<sup>th</sup> December 2004. The detailed

financial implications associated with this transfer were reported to the Executive in July 2004 and the cost to the Council in 2005/06 arising from the operation of the HRA Subsidy System was explained. The net cost to the HRA of some £180k was incorporated in summary, pending the ballot result, in the 2005/06 Estimates reported to the December Executive. These costs have now been embedded in detail in the respective areas of the HRA, in anticipation of the successful completion of the transfer of the Estate before the end on the 2004/05 financial year.

#### **4.4.3 Tenant Service Charges**

4.4.3.1 2002/03 was the first year of a planned three year phasing in of Tenant Service Charges. Unfortunately the Government subsequently introduced regulations that made Tenant Service Charges subject to Rent Rebate Subsidy Limitation. As a result it was decided at the time of setting the 2003/04 and 2004/05 Original Budgets not to implement the second year phase of Tenant Service Charges. Officer made proposals in the report to the December Executive to recommence phasing in the remaining proportion of Tenant Service Charges, however, the Leader's Recommendations to the Executive rejected these proposed increases for 2005/06. It is proposed that a comprehensive review of Service Charges will be undertaken during the coming year.

#### **4.4.4 Revenue Contributions to Capital Outlay (RCCO)**

4.4.4.1 2004/05 was the last year in which the HRA was planned to make a Revenue Contribution to Capital Outlay (RCCO). It is not considered that the underlying HRA can support an ongoing level of RCCO and they are not assumed in the current Capital Strategy. The 2004/05 RCCO of £647k therefore drops out of the HRA base budget in 2005/06.

#### **4.5 Other HRA Ancillary Fees and Charges**

4.5.1 The proposed increases in these charges are attached at Appendix B and the effect of these increases has been incorporated in the 2005/06 Estimates.

#### **4.6 General Fund Garages Rent Increase**

4.6.1 The income and expenditure budgets relating to Council Garages are included in the General Fund. However, garage rents are collected with housing rents and the same notice period needs to be given to tenants. It is proposed to increase garage rents by 36p, from £7.00 to £7.36 (plus VAT for non-Council tenants) per week.

### **5 IMPLICATIONS**

#### **5.1 Financial Implications**

This report is largely financial in nature and relevant implications are included in the body of the report and appendices.

#### **5.2 Legal Implications**

The Council has a statutory duty to balance the Housing Revenue Account. The Council has a statutory duty to consult its tenants on changes in policy and practice on matters of housing management.

### **5.3 Policy Implications**

All of the proposals in this report are intended to be consistent with the Corporate Business Strategy ambitions and priorities that relate to the housing stock.

### **5.4 Service Delivery Implications**

The proposals in the report reflect the aim of setting the HRA to ensure our ability to deliver the Best Value Review Improvement Plan.

### **5.5 Other Implications**

There are no other direct implications to report at this time.

## **BACKGROUND DOCUMENTS**

- 2005/06 Draft & Final HRA Subsidy Determinations
- Executive report 16<sup>th</sup> December 2004 Draft HRA Budget 2005/06
- Housing & Wellbeing Scrutiny Panel report 16<sup>h</sup> December 2004 HRA Budget 2005/06

## **APPENDICES**

- Appendix A – HRA 2004/05 Probable and 2005/06 Estimate Budgets & Notes – are attached to the Report.
- Appendix A(i) – HRA 2004/05 Probable and 2005/06 Estimate Budgets & Notes - a full set of Estimates, including all the required adjustments in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Best Value Accounting Code Of Practice (BVACOP), have been placed in the Members Library, for information.
- Appendix B – List of HRA Ancillary Charges and Proposed Increases