

---

<b>REPORT TO:</b>	<b>HOUSING AND COMMUNITY SERVICES COMMITTEE</b>	<b>AGENDA ITEM:</b> 7
<b>DATE OF MEETING:</b>	<b>9 JANUARY 2003</b>	<b>CATEGORY:</b> <b>RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>CHIEF FINANCE OFFICER</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (595811)</b>	<b>DOC:</b> c/ks/myfiles/budget200304/hrareport
<b>SUBJECT:</b>	<b>HOUSING REVENUE ACCOUNT BUDGETS 2002/03 &amp; 2003/04 &amp; PROPOSED RENT INCREASE 2003/04</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE:</b> FM08

---

## **1.0 Recommendations**

- 1.1 That the proposed estimate of income and expenditure for 2002/03 and 2003/04 for the Housing Revenue Account are approved and referred to the Finance and Management Committee.
- 1.2 That the proposals for new spending and service reductions and efficiencies as detailed in Appendix 2, are approved
- 1.3 That the 3-year financial forecast for the Housing Revenue Account is noted.
- 1.4 That the Target Rents for individual tenants be increased by 3.25% for 2003/04.
- 1.5 That the Housing Revenue Account's proposed fees and charges for 2003/2004 are approved.
- 1.6 That any "windfall" arising out of the Government's Supporting People (SP) service is earmarked to fully subsidise existing tenants who may be subject to SP charges.
- 1.7 That any balance of the "windfall" accruing after taking into account 1.6 above, is set-aside in an earmarked reserve pending further guidance from the Government and/or a review of SP services in the District by the County Council.

## **2.0 Purpose of Report**

- 2.1 To detail the Housing Revenue Account's (HRA) probable out-turn for 2002/03, the base budget for 2003/04, and the forecasts for 2004/05 and 2005/06 (as summarised in Appendix 1). It also sets out details of the proposed rent increase for 2003/04 together with proposals for the level of other fees and charges levied in the HRA. It also provides a financial update on Supporting People (SP) and recommends the earmarking of any "windfall" accruing to the HRA.

### **3.0 Executive Summary**

#### **Probable Out-turn 2002/03**

- 3.1 The deficit on the HRA is estimated to be some £404,710 for 2002/03 compared to an original estimate of £26,810 – an increase of around £378,000. Approximately £200,000 of this had previously been earmarked from higher than expected balances at the end of 2001/02, to supplement repairs and the change and improvement programme in this financial year.
- 3.2 Loss of rent income from increasing council house sales and voids (£87,000), approved disturbance payments for sheltered tenants (£50,000) and an increase required in the bad debts provision (£30,000) will push the deficit beyond £400,000 for 2002/03. However, HRA Balances will still be well above the recommended minimum of £1/2m as at 31<sup>st</sup> March 2003, i.e. £857,855.

#### **Base Budget 2003/04**

- 3.3 The base estimate for 2003/04 shows another deficit of approximately £287,000. This is mainly due to a continuing fall in rent income from council house sales, together with a loss of Government subsidy towards the annual debt costs charged to the HRA.
- 3.4 This is a particular problem in 2003/04, as the Government's subsidy formula takes into account the substantial land sales of housing land over recent months. The reduction in subsidy is further exacerbated by the continuing high level of council house sales, which results in lower contributions towards management and maintenance costs. This also lowers the base for future years. However, given these factors, the level of balances at the end of 2003/04, is still projected to be above the minimum level of £1/2m, i.e. £696,775.

#### **3 Year Projection**

- 3.5 From a report presented to the Council's Financial and Service Planning Working Group in December, it was clear, that if current spending levels and anticipated income streams were to continue, by the end of the 3-year planning period, the HRA would fall into deficit.
- 3.6 To enable the HRA's Balances to remain above the minimum requirement of £1/2m over the 3-year planning period (upto 31<sup>st</sup> March 2006), certain proposals have been made to achieve this.
- 3.7 Firstly, it assumes overall cash limiting of supervision, management and other overhead costs, from 2004/05 together with some service efficiencies and reductions as detailed in Appendix 2. This predominantly includes a re-profiling of repair expenditure, i.e. reductions in planned maintenance to be offset by spending from within the Council's capital allocation (Major Repairs Allowance).
- 3.8 This will take out approximately £1/2m on a phased basis from the HRA repairs budget over the next 3 years. However, the Council does currently receive through its Major Repairs Allowance, a sum of around £1.9m per year, to spend on substantive improvements to the housing stock, including planned maintenance works.

3.9 The longer-term viability of the HRA will need to be monitored closely, as will the above strategy to ensure that overall, HRA balances remain at least £1/2m at the end of the 3-year planning period.

#### 4.0 Detail

##### Basis of 2003/04 Estimates

- 4.1 The budget for 2003/04 has initially been compiled at November 2002 prices. An allowance for inflation has then been added where this is considered unavoidable, to cover for price increases from November 2002 to March 2004. This calculates the cash limit estimate for 2003/04, in which budgets should be managed. The assumptions built into estimates are as follows:
- Employee Costs – 3.5%
  - Energy, Rates and Water Costs – 2.5%
  - Transport Costs – 2.5%
  - Contracted Services – 2.5%
  - All other costs – no increase
  - Fees and Charges (excluding rents) – an average of 2.5% across the HRA's Services
- 4.2 The estimates are also based on service levels in 2002/03 continuing and include any full year effects of previous year's growth and capital expenditure. Any non-recurring items have been removed, although proposed new developments have been built into estimates.
- 4.3 As regards new service developments, 3 new areas of spending have been identified and built into future budgets and these are detailed in Appendix 2. These are for testing solid fuel heating appliances (£60,000 over 3 years), asbestos survey and register (one-off cost of £45,000 in 2003/04) and increased grounds maintenance around sheltered accommodation (£42,000 over 3 years). No further provision is included for any additional service improvements over the 3-year planning period.

##### Rent Increases

- 4.4 Previous reports to this Committee have provided details of the Government's Rent Restructuring mechanism for setting local authority rents. In addition, during September and October of this year, tenants were informed of the proposals and general implications via area tenant meetings. Furthermore, individual tenants were notified of their current "Target" rent in October with a comparison to that paid currently.
- 4.5 The Council will in the future be tied to the Government's Rent Restructuring formula in setting its annual rent increase. The Government have notified the Council that the Target rent for individual tenants should be increased by **3.25%** for 2003/04 (2.25% inflation, plus a 1% real terms increase in overall rent).
- 4.6 This has been built into the figures in Appendix 1, together with the overall effects of rent restructuring on the HRA, i.e. a loss of income of approximately £30,000 per year (as previously reported). Members will be aware that Rent Restructuring will begin in earnest from 1<sup>st</sup> April 2004, and tenants will be phased towards their Target rent over the next 9 years.

### **Supporting People (SP)**

- 4.7 Members will be aware that this is due to be implemented on 1<sup>st</sup> April 2003. Amongst other things, this will involve the transfer of a significant proportion of the costs associated with Wardens and Central Control Staff, from the HRA to the General Fund. These costs will in the future be financed from the SP grant allocation.
- 4.8 This will create what is being termed a "windfall" within the HRA. As costs are being transferred out, and rents not being amended (except through Rent restructuring), this will effectively generate significant resources within the HRA of around £1/2m.
- 4.9 However, there is still a lot of uncertainty concerning this "windfall" and its future availability and utilisation. Recently, the Government have become concerned about the high level of costs potentially being transferred out of HRA's nationally, to be financed through SP.
- 4.10 One of the issues contained within the principles of SP is that tenants, particularly in sheltered accommodation, should contribute separately to the costs of services provided under SP. This would be via a service charge (in addition to housing rents). Liability to this service charge would be subject to a "Means Test." This potentially, could affect existing tenants who do not receive housing benefit towards all or part of their rent, although the Government has given a commitment to protect these tenants on an on-going basis.
- 4.11 However, the Government are directing those Councils such as South Derbyshire, to meet the cost of this protection from the "windfall" as the service charge (if payable) would not be liable for housing benefit. This amount will be calculated by the County Council before March and deducted from the SP grant allocation, based on data and current housing benefit cases submitted to them.
- 4.12 Initial estimates suggest that in total the maximum amount could be around £140,000 per year for this Council and this will need to be earmarked out of the "windfall." In addition, due to the uncertainty still relating to SP in the future, it is recommended that any remaining amount is set-aside in an earmarked reserve. This would be pending further guidance from the Government and/or a review of SP services in the District by the County Council.

### **Proposed Fees and Charges 2003/04**

- 4.13 Appendix 2 provides a schedule of the proposed level that will operate from 1 April 2003, together with a comparison to the existing charge. Unless a specific explanation has been made against an individual charge, all other charges have been increased by 2.5% and rounded appropriately. A review of other property related service charges (such as heating and insurance) are to be reviewed in 2003/04 in accordance with the Government's proposals for Resource Accounting in the HRA. Options will be brought to this Committee following this review to determine the level and collection of these charges from tenants.

## **Charges for Supporting People**

- 4.14 As stated above, tenants, particularly those in sheltered accommodation, will become liable to a SP charge if they fail a means test. Although this will not affect existing tenants, all new tenants after 1<sup>st</sup> April 2003 will be liable, subject to the means test.
- 4.15 In accordance with the contract for SP services with the County Council, the charge has to be based on the existing cost of support services currently provided in South Derbyshire, i.e. the £1/2m stated in paragraph 4.8 above. Based on the number of sheltered units, this equates to a charge of £8.60 per week.
- 4.16 This effectively covers the cost of a warden and lifeline (including overheads) to the extent that they provide support services to tenants (the charge excludes any duties associated with the traditional housing management function or other property-related services provided). The amount of SP grant would be reduced by any income collected from this source.

## **5.0 Financial Implications**

- 5.1 As detailed in the report

## **6.0 Corporate Implications**

- 6.1 The proposals contained in this report will affect the resources directed to Housing Services in South Derbyshire, which have an influence on many of the Council's key aims contained in its Corporate Plan.

## **7.0 Community Implications**

- 7.1 As above.

## **8.0 Conclusions**

- 8.1 The Committee is requested to consider carefully the income and expenditure proposals of the HRA in the light of its overall financial position, and to approve a level of net expenditure for Finance and Management Committee.

## **9.0 Background Papers**

Estimate Working Documents

