
| | | | |
|--------------------------------|---|----------------------------|--|
| REPORT TO: | COMMUNITY SERVICES COMMITTEE | AGENDA ITEM: | 15 |
| DATE OF MEETING: | 10 JANUARY 2002 | CATEGORY: | RECOMMENDED |
| REPORT FROM: | CHIEF FINANCE OFFICER HEAD OF COMMUNITY SERVICES | OPEN | |
| MEMBERS' CONTACT POINT: | KEVIN STACKHOUSE (595811) JOHN MORLE (595822) | DOC: | s:\cent_serv\committee reports\community services\10 jan 2002\hra account budgets.doc |
| SUBJECT: | HOUSING REVENUE ACCOUNT BUDGETS 2001/02 & 2002/03 & PROPOSED RENT INCREASE 2002/03 | REF: | KS/JHM |
| WARD(S) AFFECTED: | ALL | TERMS OF REFERENCE: | |

1.0 Recommendations

- 1.1 That the proposed estimates of income and expenditure for 2001/02 and 2002/03 for the Housing Revenue Account are approved.
- 1.2 That a rent increase of 3.75% for 2002/03 is approved.
- 1.3 That the Housing Revenue Account's proposed fees and charges for 2002/03 are approved.

2.0 Purpose of Report

- 2.1 To detail the Housing Revenue Account's (HRA) probable out-turn for 2001/02 and the base budget for 2002/03. It also sets out options for a rent increase in 2002/03, together with proposals for the level of other fees and charges.

3.0 Executive Summary

Probable Out-turn 2001/02

- 3.1 The HRA's financial position has continued to stabilise over the last 12 months or so, with projected balances upto the end of the current financial year 2001/02, well above the minimum level recommended by the District Auditor.
- 3.2 The probable out-turn shows a projected **surplus** on the HRA of approximately **£129,000**. This is a much healthier position than the original cash limit estimate, which estimated a deficit of approximately £15,000. Assuming spending remains within budget for the remainder of the year, and anticipated income levels are

achieved, then this surplus will help to increase HRA balances to **over £1m** by the end of the financial year. (the minimum recommended by the District Auditor, as a contingency is £1/2m).

3.3 The main reasons for this anticipated increase in resources (approx. £145,000) is summarised below:

- Increase in rental income and one-off contributions - £80,000
- Overall increase in housing subsidy - £75,000

Partly offset by

- Increase in council tax payable on void properties - £10,000

Base Budget 2002/03

3.4 The base budget for 2002/03 shows a **deficit** before any increase in current rent levels of approximately **£346,000 (see Appendix 1, Line 30)** This assumes current spending levels, inflated where necessary, and includes several service developments. (See Appendix 3). Various increases in rent levels are proposed in the report to finance this deficit, ranging from 3.5% to 4%. All of these options would still require a contribution from reserves to ensure that the Council sets a balanced HRA for 2002/03.

3 Year Projection

3.5 A broad extrapolation of current spending levels and anticipated income streams shows that balances would fall to approximately £630,000 by the end of 2004/05. (see Appendix 2). Although this is still above the recommended minimum level, it does not provide for any major additional service improvements, for example, the development of the HRA's business plan and future stock options.

3.6 In order to achieve this, it would be prudent to have a level of balances of at least £800,000 over the period 2003 to 2005. This means that additional resources of approximately £50,000 would need to be identified from within current base budgets. This amount would increase year on year if action were not taken within 2002/03.

3.7 Against this, the Council is likely to be very restricted to the amount of rent increases in future years due to the Government's rent restructuring proposals. Therefore, reductions in current expenditure levels may be necessary and in particular management and maintenance levels, unless additional capital receipts are available to capitalise planned maintenance works.

4.0 Detail

4.1 The report is sub-divided into several appendices, as follows:

- ◆ Appendix 1 - a summary of the HRA, together with an analysis of working balances and other reserves.
- ◆ Appendix 2- a summary of a broad 3-year projection based on current service levels.

- ◆ Appendix 3 - a summary of the proposed service developments for 2002/03, which have been incorporated into, estimates.
- ◆ Appendix 4 – a schedule showing the proposed fees and charges for 2002/03.

4.2 Basis of 2002/03 Estimates

The budget for 2002/03 has initially been compiled at November 2001 prices. An allowance for inflation has then been added where this is considered unavoidable, to cover for price increases from November 2001 to March 2003. This calculates the cash limit estimate for 2002/03, in which budgets should be managed. The assumptions built into estimates are as follows:

- Employee Costs – 3%
- Energy, Rates and Water Costs – 2.5%
- Contracted Services – 2.5%
- Pensions – an increase from 270% to 300% of the employees' basic amount
- All other costs – no increase
- Fees and Charges – an average of 2.5% across all services

4.3 The estimates are also based on service levels in 2001/02 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 (**as shown in Appendix 2**).

4.4 In addition, the Repairs **budget has been increased by £100,000** and will be predominantly earmarked for void properties.

4.5 As a consequence, the deficit for 2002/03 (before a rent increase) is approximately £346,000 (**see Appendix 1, Line 30**). To maintain existing services and working balances above the recommended minimum, rent increases are required over the next 3 years.

4.6 Options Available for 2002/03

Rent increases for 2002/03 have been modelled on the following percentages:

- ◆ 3.50% (the Government's initial Guideline – 2.5% inflation + 1% real terms increase)
- ◆ 3.75% (the increase required as the first stage to meeting the Government's Rent Restructuring Proposals - see 4.8, below), and
- ◆ 4.00%

The effects are shown in the table below:

| | 3.5% Increase £ | 3.75% Increase £ | 4% Increase £ |
|---|-----------------------|------------------------|---------------------|
| Additional Income p.a. | 275,000 | 295,000 | 314,000 |
| Subsidy Penalty p.a. | 0 | 0 | 1,000 |
| Contribution Required from Balances in Year | 71,000 | 51,000 | 32,000 |
| Balances at the Year End | 987,000 | 1,007,000 | 1,026,000 |
| Average Rent Increase per Week | £1.52 | £1.63 | £1.74 |

- For comparison, the rent increase for the current financial year 2001/02, was 7.6%, equivalent to £3.08p per week on the average rent.

4.7 Given the overall financial position of the HRA and to fit into the Government's proposals for rent restructuring, **the recommended option is a 3.75% increase.** This is effectively the increase the Government is expecting the Authority to apply in 2002/03, and therefore, no further subsidy penalty would be incurred.

4.8 **Rent Restructuring**

The Government have set in motion proposals to harmonise the rents charged by local authorities and other social landlords, through a process called Social Rent Reform. Within this, the Government will use the housing subsidy system to place financial penalties on authorities that do not adjust their rents in accordance with the target/formula rent set.

- 4.9 The formula rent is determined for each property by reference to its capital value, regional wage levels, with adjustments for the number of bedrooms. Authorities are expected to move towards their target rent within 10 years, commencing in 2002/03. The formula has been applied to all of South Derbyshire's properties, and overall, the Council's average rent is £1.07 per week **below** the Government's target.
- 4.10 This means that overall, the Council will be required to move its average rent by an additional 11p per week above the Government Guideline for the next 10 years. This equates to 0.25% per year, for which the subsidy system will not impose any additional penalties.
- 4.11 The Council overall should not be any worse-off under rent restructuring. However, a fundamental aspect of the proposals is that rents should not be averaged, but a separate rent calculation undertaken for each property, and there is likely to be a financial impact on many individual tenants – some will see rents increase by more than the average whilst others may not be subject to any rent increase.
- 4.12 The Council is not required to fully implement rent restructuring from 2002/03, as it is one of a number of authorities across the Country whose current rents (IT) system cannot calculate/deal with individual property rents. The Council's IT system is to be developed in 2002/03 to enable rent restructuring to be fully embraced by 2003/04. Therefore, the Government does not require restructuring to be implemented at individual property level for 2002/03, but on the average basis, i.e. the 3.5% initial guideline, plus 0.25% as highlighted above in 4.10.
- 4.13 There is some flexibility within the proposals for delaying restructuring in the earlier years or setting different rent levels from that required by the formula. However, there would be a financial cost. In addition, the Supporting People initiative and changes to the subsidy system being proposed in 2003/04, are likely to have an impact at some stage.
- 4.14 Therefore, it is proposed to bring a more detailed report to the Committee on this particular issue of rent restructuring, once more detailed calculations and an analysis of options has been completed.

4.15 Proposed Fees and Charges 2002/03

Appendix 4 provides a schedule of the proposed level that will operate from 1 April 2002, together with a comparison to the existing charge. If the charges were increased with that proposed, this would generate approximately £4,000 p.a. for the HRA.

Charge for Sheltered Accommodation

Similar to the general rent increase, options as detailed in the table below, have been modelled.

| | 3.5% Increase £ | 3.75% Increase £ | 4% Increase £ |
|-----------------------------|-----------------------|------------------------|---------------------|
| Additional Income p.a. | 12,750 | 13,650 | 14,600 |
| Increase per Week (rounded) | 20p | 25p | 30p |

Charge for Garage Rents

Similar to the general rent increase, options as detailed in the table below, have been modelled.

| | 3.5% Increase £ | 3.75% Increase £ | 4% Increase £ |
|-----------------------------|-----------------------|------------------------|---------------------|
| Additional Income p.a. | 3,700 | 4,000 | 4,300 |
| Increase per Week (rounded) | 15p | 17p | 20p |

- On an equitable basis, it is recommended that an increase in line with general rents be approved.

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 are requested to consider carefully the income and expenditure proposals for the HRA. From the options provided for a rent increase in 2002/03, it is recommended that a 3.75% rise be accepted. This would

- ◆ Align with the Government's Guideline and incur no additional subsidy penalties,
- ◆ Help to maintain existing service levels and working balances, and
- ◆ Adhere to the Government's rent restructuring proposals pending further details.

9.0 Background Papers

Estimate Working Documents