

**Meeting:** Policy & Resources Committee  
Council

**Date:** 23 February 2005  
3 March 2005

**Report of:** Director of Housing & City Support  
Director of Property & Finance

**Subject:** Housing Revenue Account Budget 2005/06

**1. Purpose of the report**

- 1.1 This report proposes a Housing Revenue Account (HRA) Budget for 2005/06 including changes to rents, fees and charges.

**2. Recommendations**

- 2.1 That the Policy & Resources Committee:
- a) approves individual rent increases and decreases in line with rent restructuring principles as determined by the Government. The HRA Subsidy determination proposes an average increase of 4.03% to target rents.
  - b) approves the changes to fees and charges as detailed in paragraph 6.11
  - c) authorises the Director of Housing & City Support to implement the new rents, fees and charges, but with power to make any minor amendments which may appear to be appropriate in particular cases; and
  - d) authorises the Director of Housing & City Support to prepare and place on deposit the statement of proposals, estimates and other particulars as required by Section 76 of the Local Government and Housing Act 1989.
- 2.2 That the Policy & Resources Committee approves and recommends to Council the budget as set out in Appendix 1.

### **3. Summary**

3.1 This report includes:

- The forecast outturn for 2004/05 Housing Revenue Account
- Details of the HRA Subsidy Determination 2005/06 and rent restructuring and separation of service charges
- Details of the HRA 2005/06 budget proposals
- Projected HRA balances as at 31 March 2006

### **4. 2004/05 Forecast Outturn**

- 4.1 The 2004/05 budget at Month 8 is forecast to underspend by £13,000 and is shown in Appendix 1. The budget had assumed a contribution from reserves of £356,000. This underspend means that this contribution is reduced to £343,000. The main variances are explained below:
- 4.2 The employee's forecast includes unforeseen voluntary redundancy and early retirement costs of £109,000 as a result of the restructuring in Housing Management.
- 4.3 The forecast also includes additional costs of £248,000 in relation to the stock options process. These costs, which include consultation, communications, financial and human resources support, have been included within Employees, Supplies & Services and Support Services headings.
- 4.4 The grounds maintenance costs included within Premises (Other) are forecast to underspend by £93,000 due to savings achieved from the contract being brought back in house with effect from 1 April 2004. An allowance has been made in the forecast for contract variations, including tree works, and this will be closely monitored during the year.
- 4.5 Capital financing costs are forecast to underspend by £177,000 due to debt restructuring and a reduction in the average interest rate paid on council borrowing. The reduction of capital financing costs rates led to a loss of subsidy of approximately £37,000. Any future fluctuations in interest rates will impact on the capital financing costs and government subsidy relating to capital financing
- 4.6 Service charges to leaseholders are forecast to overachieve the income budget by £280,000. This is mainly as a result of a review of management and administration costs and additional charges of

£175,000 for major works.

## **5. Rent Restructuring and Subsidy Determination**

- 5.1 The Housing Revenue Account Subsidy Determination 2005/06 proposes the following changes:

### **Rent Restructuring**

- 5.2 Housing Management Sub Committee agreed on 23 November 2004 that service charges should be separated from tenant's rents. This change is required as a result of the government's rules on rent restructuring. The reduction in rents that result from this decision changes the speed at which the rents move towards the target rent level required by the rent restructuring formula as follows:
- if a tenant's rent is currently below the target rent level then their rent will now increase faster towards that target rent level.
  - if a tenant's rent is currently above the target rent level then their rent will now reduce slower towards that target rent level.
- 5.3 This will result in more tenants facing the maximum rent increase of Retail Price Indices (RPI) plus ½% +/- £2 per week. The maximum rent increase is a limit set by central government to ensure that no tenant faces too high an increase in rents in any one year.
- 5.4 The Housing Subsidy determination proposes national standard increases in rents of 4.03%. If we had not separated service charges from rents, on average rents would have increased by 3.63% which is below the national standard increase and represents £1.89 per week. However because of the way that the rent restructuring formula works some rents would increase by more than £1.89 and other rents by less than this. The maximum increase would be approximately £4.40. We are not yet able to calculate what the average rent increase or maximum increase will be after the separation of service charges. However, it should not be substantially different to the figures above and will be available at the end of February 2005.

### **Management and Maintenance Allowances**

- 5.5 Nationally, both the management and maintenance allowances have increased by 10.42% for 2005/06. This is made up of a 6% real increase, inflation of 2.53% plus an adjustment for rent restructuring of 1.9%. Brighton and Hove's management and maintenance allowances have increased by 2.5% and 12.6% respectively for 2005/06. The net increases

in these allowances represents 8.7%, below the national average of 10.42%.

- 5.6 The 2004/05 Budget Report showed that target allowances would lead to a cash reduction of £569,000 due to the significant reduction in our management allowance. However, the further changes to the target allowances in the 2005/06 determination and in particular the significant unexpected increase in the target maintenance allowance will now result in a net increase of £810,000. The actual allowances received are subject to the damping effect which means that the management allowances will not reduce in cash terms but increase only by inflation. The management allowances will increase by 12.6%. The table bellows shows the changes to the targets and actual allowances.

	Management Allowance	Maintenance Allowance
<b>2003/04 Actual Allowance</b>	<b>£545.27</b>	<b>£883.04</b>
<b>2004/05 Target</b>	<b>£462.60</b>	<b>£940.34</b>
<b>% Increase/(decrease) compared to actual</b>	<b>-15%</b>	<b>6%</b>
	Management Allowance	Maintenance Allowance
<b>2004/05 Actual Allowance</b>	<b>£558.68</b>	<b>£904.76</b>
<b>% Increase/(decrease)</b>	<b>2.5%</b>	<b>2.5%</b>
<b>2005/06 Target</b>	<b>£507.54</b>	<b>£1,045.64</b>
<b>% Increase/(decrease) compared to actual</b>	<b>-9.2%</b>	<b>15.6%</b>
<b>2005/06 Actual Allowance</b>	<b>£572.81</b>	<b>£1,018.35</b>
<b>Allowance % Increase/(decrease)</b>	<b>2.5%</b>	<b>12.6%</b>

## 5.7 Major Repairs Allowance (MRA)

The MRA represents the estimated long term average amount of capital spending required to maintain the stock in its current condition. The government has increased the categories of stock used to calculate MRA from 11 to 13. Brighton and Hove has benefited from these changes by an increase in MRA of 4.7% compared to the national average of 3.48%. The MRA allowance has increased by £249,284 to £8,985,449.

## **5.8 Other Changes to Subsidy**

Housing rent rebates responsibility transferred to the Department for Work and Pensions from 1 April 2004 and the cost of rent rebates must be charged to the General Fund from that date. This means that the cost of unsubsidised incentive areas, such as overpayments, are now met from the General Fund. In order to assist Local Authorities the government agreed a transition period of two years during which authorities can transfer costs from the General Fund to the HRA. The level of support to the General Fund has reduced for 2005/06 resulting in a saving of £190,000 to the HRA.

## **6. Housing Revenue Account Budget Proposals**

- 6.1 Details of the Housing Revenue Account budget for 2005/06 are set out in Appendix 1 in a user friendly format. Resource accounting format is available on request. The budget has been set to take into account the following main variances:
- 6.2 In line with corporate budget guidelines, apart from those specifically mentioned below, 2.95% inflation is included for pay and 2.5% for other expenditure budgets.
- 6.3 The review of the estate warden service as agreed at Housing Management Sub Committee on 3 February 2005 identified additional annual costs of £334,000 which relate to employee costs. It is anticipated that these will be recovered through service charges to tenants and leaseholders. Some tenants will receive new charges from 1 April 2005 for the cleaning of communal areas in their flats or maisonettes.
- 6.4 Other significant increases in the employees budget include a 1.4% increase in employers superannuation (from 13.3% to 14.7%) and additional staffing to develop and accelerate service delivery improvements throughout Housing Management Services.

- 6.5 The budget includes an additional £430,000 in respect of costs arising from the establishment of an Arms Length Management Organisation or from a transfer to a Registered Social Landlord. This includes costs for initial set up costs, additional internal central support staff, independent tenant advisers, tests of opinion and consultant fees for legal, financial and communications support.
- 6.6 The grounds maintenance contract was awarded to the council's in house team from 1 April 2004. This contract has achieved savings of £97,000 and is shown in the premises other budget.
- 6.7 Housing Management has identified 2.5% efficiency savings of £178,000. These savings include a reduction of £39,000 in the contribution to the bad debt provision due to improved rent arrears collection (partly offset by an increase required for new rechargeable works charges), £35,000 from rubbish clearance due to the new estate warden service, £21,000 from improved management of responsive repairs contracts and savings in supplies and services and consultants budgets.
- 6.8 The central support services charges include a reduction of £353,000 due to lower recharges mainly from ICT Services, Property Services and Insurance as a result of efficiency savings achieved within these services being passed onto the HRA. This partly offset by additional central support staff required to support the stock options process and implement the chosen option.
- 6.9 The net effect of the changes to Housing Subsidy, transfers to the general fund in respect of rent rebates transitional protection and capital financing charges is a reduction in costs of £660,000. Due to the increase in the maintenance allowances the revenue contribution to the capital programme has been increased by £649,000 resulting in a total budget of £4.46 million.
- 6.10 The rental income budget has been increased by £1.07 million. Of this £1.37 million is represented by the 3.63% increase as determined by rent restructuring which is partly offset by £0.30 million loss of rental income from future Right to Buy housing sales. This budget does not currently include any additional rental income gained from rents moving faster or slower towards their target rents as explained in paragraphs 5.2 to 5.4. following the separation of service charges. Any overachievement of rental income during 2005/06 will be utilised as revenue contributions to capital in order to bring forward and finance capital schemes from

2006/07.

- 6.11 All fees and charges (such as heating, garages and car parking) will be increased in line with RPI at 3.1%. This excludes supporting people charges which will remain at the current rates in line with the existing contract rates, which will not be inflated for 2005/06.

## **7. Projected HRA Balances**

- 7.1 The latest forecast outturn for 2004/05 projects a contribution from balances of £343,000 reducing the projected balances to £3.039 million at 31 March 2005. Following the transfer of rent rebates to the HRA the recommended minimum level of reserves has reduced from £3 million to £2 million. The balances are now projected to be £2.724 million as at 31 March 2006 and it is proposed that they should remain at this level to cover future anticipated set up costs of the chosen solution from the stock options process. The projected balances position at 31 March 2006 is shown in Table 1:

**Table 1: Projected HRA Balances at 31 March 2006**

	£'000
Balances at 1 April 2004	3,780
Less:	
earmarked Estate Development Budget	(398)
projected contribution from balances 2004/05	(343)
	<hr/>
Projected Balances at 31 March 2005	3,039
Less:	
projected contribution from balances 2005/06	(315)
	<hr/>
Projected Balances at 31 March 2006	2,724

## **8. Consultation**

- 8.1 Tenants are informed of the budget proposals during January 2005. Tenants are also consulted throughout the year on the HRA Budget and Business Plan and the Estate Development Budget. After Policy & Resources Committee approval tenants will receive notification of their individual rents and charges for 2005/06.

## COMMITTEE REPORT APPENDIX



<b>Meeting Date</b>	<b>Policy &amp; Resources Committee / Council</b> <b>23 February 2005 / 3 March 2005</b>
<b>Report of</b>	<b>Director of Housing &amp; City Support</b> <b>Director of Property &amp; Finance</b>
<b>Subject</b>	<b>Housing Revenue Account Budget 2005/06</b>
<b>Wards affected</b>	All

### **Financial implications**

Financial implications are contained in the main body of the report.

*Sue Chapman*

*18 January 2005*

### **Legal implications**

The council is obliged to keep a separate Housing Revenue Account by virtue of the Local Government and Housing Act 1989.

*Liz Woodley*

*8 December 2004*

### **Corporate/Citywide implications**

The Budget seeks to improve the quality of council housing and services provided to tenants across the City.

### **Risk assessment**

There has been no risk assessment for this report.

### **Sustainability implications**

The HRA budget will fund a range of measures that will benefit and sustain the local environment.

### **Equalities implications**

The HRA budget will fund services to many people with special needs due to age, vulnerability or health needs.

### **Implications for the prevention of crime and disorder**

The HRA budget will fund a range of measures to improve security and make estates a safer place to live. The HRA will continue to contribute to the community safety strategy both at a strategic level and through joint working with police and other partners. The Housing subsidy now includes a special allowance to prepare and publish policies in relation to the new Anti Social Behaviour Bill.

### **Background papers**

1. Working papers are held within Financial Services, Corporate Services.



## COMMITTEE REPORT APPENDIX

**Contact Officer**

Sue Chapman,  
Head of Financial Services (Housing & City Support), ext 3105