

# REPORT

**Cllr Cole-Morgan : Cabinet Member for Community & Housing**

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## **HOUSING REVENUE ACCOUNT BUDGET AND RENT-SETTING 2005/06**

### **EXECUTIVE SUMMARY**

The report outlines salient points concerning the Housing Revenue Account, including changes resulting from the Local Government Act 2003 and the Government's rent restructuring policy, as they relate to this Authority and the budget for 2005-06. It proposes that rents increase in line with rent restructuring requirements, garage rents increase by 3.5% and service charges by 2.5%. It also sets out the budget for 2005-06 and the revised position for 2004-05.

### **I. PURPOSE OF REPORT**

I.1 The purpose of the report is to:

- (i) seek approval for the Housing Revenue Account Budget for 2004/2005 (revised) and 2005/2006 (original); and
- (ii) agree the level of increase in rents, service charges and garage rents.

### **2. BACKGROUND**

- 2.1 The Housing Revenue Account (HRA) is a separate account that all local authorities with housing stock are required to maintain by law. This account accumulates and reports all transactions relating to, or associated with, local authority-owned housing. It is "ring fenced", which means that money cannot be paid into or out of it from the General Fund. In addition, it is not legal to run a deficit on the account.
- 2.2 The Housing Revenue Account was modified in 2002/2003 to reflect a "resource accounting" approach to bring it into line with other areas of local and central government accounting practice. In particular this involved including a charge for depreciation.
- 2.3 In April 2004 the provisions included in the Local Government Act 2003 substantially affected the HRA. The key points were the removal of both rent rebates (both benefits paid and subsidy receivable) and the obligation to make a Minimum Revenue Provision in respect of debt repayments.
- 2.4 As in preceding years, the HRA will be subject to rigorous monitoring during 2005/2006 to constantly fine-tune the budget and Members will continue to receive

quarterly monitoring statements. The Stock Option Appraisal, which is nearly finished, will also inform this monitoring process.

- 2.5 As indicated above, the Council has nearly completed a stock option appraisal, the results of which must be with the ODPM by the end of July 2005. This involves a detailed examination of all costs associated with Housing, both Strategic (in the General Fund) and Management (in the HRA). Whichever option is chosen there are likely to be financial implications for either, or both, of the General Fund and the HRA.

### **3. REVENUE BUDGET – REVISED 2004/2005 AND ORIGINAL 2005/2006**

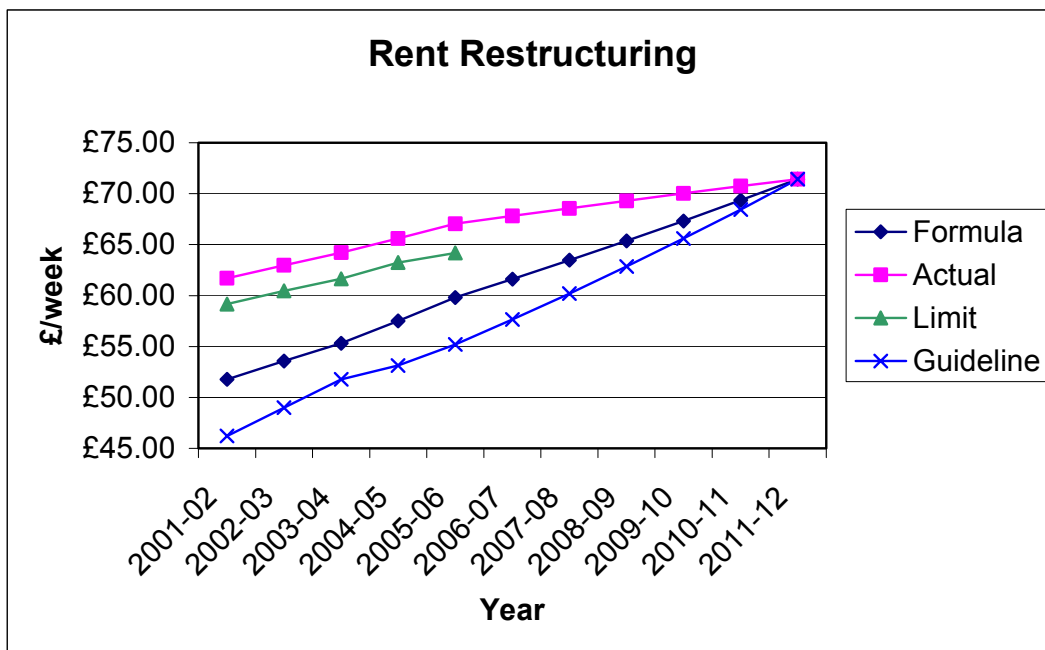
- 3.1 The HRA Budget for 2005/2006 is attached at Appendix A, together with a further statement showing the movement from 2004/2005 original estimate to revised budget and the movement from 2004/2005 original estimate to the original estimate for 2005/2006.
- 3.2 The removal of rent rebates from the HRA with effect from 2004/2005 (see 2.3 above) had the following effects:
- Rent rebates payable to tenants is now charged to the General Fund.
  - Subsidy receivable in respect of rent rebates is paid into the General Fund.
  - The difference between rent rebates paid (£9.2m) and subsidy received (£8.7m) of £0.5m is met by the HRA in 2004-05. As the original budget only provided £0.3m, an extra £0.2m has been added as part of the revised budget for 2004-05. The £0.5m comprises two elements – high rents and payments made that do not conform to all the regulations. These two are explained in the following two bullet points.
  - The Government sets a rent, called the 'limit rent', for each local authority above which it will not pay rent rebate subsidy. This means that where the average rent charged by an authority is higher than this 'limit rent', no subsidy is receivable on the excess rent. For example in 2004/2005 this Council's limit rent is £63.24 per week and its average rent is £65.61 per week, no subsidy is receivable on the difference between these two figures of £2.37 per week. The regulations implementing the Local Government Act 2003 provide for the cost of high rents to continue to be charged to the HRA. This is currently estimated at £0.4m.
  - Where subsidy is withheld or reduced for rebates paid 'incorrectly' the cost, under the new regulations, will fall on the General Fund. To enable authorities to plan for this, transitional arrangements have been implemented. These provide for the total cost to be charged to the HRA in 2004/2005 and half the cost in 2005/2006. The full cost will become chargeable to the General Fund in 2006/2007. This cost is currently estimated at £0.1m, of which £0.05m is chargeable to the HRA in 2005/2006 and £0.05m to the General Fund.
  - As a result of the above points, in 2005-06, the HRA will be charged with the loss of subsidy due to relatively high rents and half the cost of incorrect payments – currently estimated at £0.45m
- 3.2 Assuming that rents are increased in line with the proposals set out in paragraph 4.5, estimates for 2005/2006 show that income exceeds expenditure and that there will be a contribution to HRA balances of £1,746,510. A contribution of this level would leave the estimated balance at 31 March 2005 at £5.2m. This balance is relatively high pending the outcome of the Stock Option Appraisal, which is currently indicating that net cost of the HRA needs to reduce significantly.

- 3.3 The current approved capital programme assumes that there is no contribution from revenue to capital expenditure in 2005/2006. This position will be reviewed in the light of the outcome of the Stock Option Appraisal.

#### **4. RENT RESTRUCTURING**

- 4.1 In line with Government policy all Councils and Registered Social Landlords have to set their rents by the rent restructuring formula to meet a target rent by 2011. With effect from April 2003, the rent for each of the Council's HRA dwellings has been calculated in accordance with the rent restructuring guidance. The only exception to this is that, as agreed last year, no rents will decrease.
- 4.2 The details of the calculation of formula rent for each property for April 2001 are:-
- 70% of the rent is based upon the relative earnings of manual workers in the region compared to the national average.
  - This part of the rent is weighted to take account of the number of bedrooms in each property.
  - 30% of the rent is based upon the relative value of each property at January 1999 compared to the national average.
- 4.3 For each subsequent year the formula rent for each property is increased by an inflation factor set by the Government (e.g. 4.03% for 2005/2006). The result of these calculations is that the average formula rent for Salisbury in 2005/2006 is £59.82 (50 week basis). This is lower than the proposed actual average rent (£67.04), as the diagram below illustrates.
- 4.4 With effect from April 2002, each property has been moving towards its formula target rent by gradually closing the gap between the current rent being charged and the formula rent. Once a property reaches its formula rent it is then subject only to annual percentage increases. The Government's guidelines provide for a limit to be applied to the increases (or decreases) in rent experienced by tenants in any one year. The limit to increases applicable in April 2005 is 3.6% +/- £2.08 (50 week basis). As indicated above, it was agreed last year that no rents would decrease, so this Authority only applies the limitation to increases.
- 4.5 The impact of this is that in April 2005 rents should increase by an average of 2.2%. This is below the underlying rent increase used by the Government in calculating formula rent (4.03%) due to the relatively high rents in this Authority compared to the formula rent.
- 4.6 The impact at individual property level is to increase most rents by between 0% and 4%, with effect from 1<sup>st</sup> April 2005. Some properties (approx. 239) will experience higher increases but all within the limit of 3.6% + £2.08.
- 4.7 A 5% tolerance is allowed either way to the formula rent at the end of the transitional period. As no account has been taken in the valuations of individual properties of tenants options undertaken in modernisation, it was agreed last year that rents for those properties that have benefited from tenants options should continue to include a charge for those options at the same rate as they currently do, provided that they do not exceed 5% of the total rent. This only applies to existing tenant options.

- 4.8 Formula rent, actual rent, limit rent and guideline rent are illustrated in the following diagram. The Guideline rent is the amount calculated by the Government for the purposes of calculating HRA subsidy. The chart demonstrates the movement in rents over the restructuring period.



## 5. SERVICE CHARGES

- 5.1 The new rent setting arrangements exclude service charges. For the 2005/2006 budget, an increase of 3.5% has been assumed on garage rents and 2.5% on existing service charges in keeping with the model used for the Stock Option appraisal. The impact of the Supporting People contracts on relevant service charges has yet to be determined.

## 6. CAPITAL PROGRAMME

- 6.1 The Capital Programme for the HRA is set out in a separate report to Cabinet elsewhere on this Agenda.

## 7. RECOMMENDATIONS

- 7.1 It is recommended that:
- 7.1.1 The HRA Budget for 2004/2005 (revised) and 2005/2006 (original) be approved.
  - 7.1.2 Members approve the increase for dwelling rents in accordance rent restructuring.
  - 7.1.3 Members approve the level of increase for service charges at 2.5% and garage rents at 3.5%.

## 8. IMPLICATIONS

Financial:

As contained within the report

Legal:

None identified.

Human Rights:

The human rights relating to this issue have been considered and any potential interference is considered proportionate to the legitimate end to be achieved.

Personnel:

None

Environmental:

None

Council's Core Values:

The HRA is a financial expression of the Council's aims and objectives as they relate to its own housing stock, and is underpinned by the Council's core values.

Wards:

All

## Housing Revenue Account Portfolio

2003/2004			2004/2005	2004/2005	2004/2005	2004/2005	2005/2006	2005/2006
Actual Outturn	Code	Service	Original budget	Latest Approved Month 6	Revised Estimate	Original Estimate Standstill	Original Estimate	Original Estimate
£			£	£	£	£	£	£
		<b>HRA Expenditure</b>						
3,325,261	HCF	Capital Financing Costs	3,421,090	3,421,090	3,291,790	3,291,790	3,291,790	3,291,790
8,834,171	HRR	Rent Rebates	280,230	280,230	480,230	430,230	430,230	430,230
(2,742,000)	HSB	HRA Subsidy Payable	5,758,500	5,758,500	5,716,660	5,527,220	5,527,220	5,527,220
4,380,861	REPMAN	Repairs and Maintenance	3,934,570	3,947,620	3,975,870	4,075,870	4,075,870	4,075,870
3,454	RRT	Rent, Rates Taxes etc	2,550	2,550	2,550	2,550	2,550	2,550
196,039	SHELTACC	Sheltered Accommodation	306,800	311,050	305,700	290,350	290,350	290,350
2,767,789	SUPERMAN	Supervision & Management	2,984,330	2,967,030	3,073,430	3,073,430	3,073,430	3,073,430
<b>16,765,575</b>			<b>16,688,070</b>	<b>16,688,070</b>	<b>16,846,230</b>	<b>16,691,440</b>	<b>16,691,440</b>	<b>16,691,440</b>
		<b>Housing Income</b>						
(148,254)	HII	Interest	(159,430)	(159,430)	(159,430)	(159,430)	(159,430)	(159,430)
(17,685,099)	RENTS	Rents	(17,994,400)	(17,994,400)	(17,994,400)	(18,272,080)	(18,272,080)	(18,272,080)
<b>(17,833,353)</b>			<b>(18,153,830)</b>	<b>(18,153,830)</b>	<b>(18,153,830)</b>	<b>(18,431,510)</b>	<b>(18,431,510)</b>	<b>(18,431,510)</b>
<b>(1,067,778)</b>		<b>Total Housing Revenue Account</b>	<b>(1,465,760)</b>	<b>(1,465,760)</b>	<b>(1,307,600)</b>	<b>(1,740,070)</b>	<b>(1,740,070)</b>	<b>(1,740,070)</b>

# COMMUNITY AND HOUSING PORTFOLIO

Appendix A

## HOUSING REVENUE ACCOUNT

2004/05 Revised Estimate	Variations	2005/06 Original Estimate
£		£
(1,465,760)	<b>BASE - 2004/2005 ORIGINAL BUDGET - STANDSTILL</b>	(1,465,760)
	<b>OTHER VARIATIONS</b>	
	<b><u>Month 6 Budget Variations</u></b>	
61,770	Salary Inflation	61,770
61,770		<b>61,770</b>
	<b><u>Month 9 Budget Variations</u></b>	
(129,300)	Item 8 adjustment	(129,300)
(15,560)	CSR Adjustments	(15,560)
200,000	Rent Rebate Adjustments	150,000
(41,840)	HRA Subsidy Payable Adjustment	(231,280)
<b>13,300</b>		<b>(226,140)</b>
	<b><u>Budget Changes for 2005/06</u></b>	
	Rents	(277,680)
	Repairs and maintenance	100,000
	Sheltered accommodation	(15,350)
<b>0</b>		<b>(193,030)</b>
	<b><u>Contingency Adjustments</u></b>	
	<b><u>Month 6 Contingency Variations</u></b>	
(61,770)	Salary Inflation	(61,770)
	<b><u>Month 9 Contingency Variations</u></b>	
129,300	Item 8 adjustment	129,300
15,560	CSR Adjustment	15,560
<b>83,090</b>		<b>83,090</b>
<b>(1,307,600)</b>	<b>TOTAL COMMUNITY AND HOUSING PORTFOLIO</b>	<b>(1,740,070)</b>