

## **BABERGH DISTRICT COUNCIL**

**FROM:** Corporate Director and Head of  
Finance

**REPORT NUMBER** **E238**

**TO:** STRATEGY COMMITTEE

**DATE OF MEETING** 12 January 2006

### **COUNCIL HOUSING – REVENUE BUDGET AND CAPITAL PROGRAMME**

#### **1. SUMMARY**

The Draft Revenue Budget for 2006/07 and the 3-year Capital Programme for Council Housing are presented for Members consideration. The Housing Revenue Account (HRA) budget for next year is affected by the Government's revision to the way in which annual rent increases are calculated under rent restructuring. This is to ensure that rents are brought into line with the Registered Social Landlord sector by 2012. Under these revised arrangements average rent increases for 2006/07 will be 5.0%. In addition, there are a number of issues relating to charges for services and some of these will need to increase by more than inflation, whereas others will be capped as a result in other changes by the Government to the rules governing service charges.

#### **2. RECOMMENDATIONS**

- 2.1 That draft Council Housing Revenue Budget for 2006/07 and the revised budget for 2005/06 as set out in Appendix A be approved.
- 2.2 That charges for services for 2006/07 as set out in Appendix B be approved, subject to further consideration and the views of the Housing Panel
- 2.3 That draft Council Housing 3-year Capital Programme as set out in Appendix C be approved.

The Committee is asked to consider the above prior to the views of the Housing Panel as well as the Tenants Forum and give final consideration to the recommendations on the 9 February 2006 for submission to Council on the 23 February.

#### **3. FINANCIAL IMPLICATIONS**

- 3.1 The revised budget for 2005/06 reflects changes in income and expenditure that have arisen since the original budget was approved, which results in more having to be met from HRA reserves.
- 3.2 However, this is not a problem as there is more in HRA reserves than previously expected as a result of savings that arose in 2004/05 compared to the budget and, in addition, changes in the treatment of unfinanced capital work means that £502,000 that was previously to be met from reserves no longer has to be.
- 3.3 In relation to 2006/07, the draft budget for the HRA shows a healthy financial position and a surplus of £121,000
- 3.4 In terms of rent levels for next year, tenants will pay an average of around 0.7% more in 2006/07 under the revised rent restructuring arrangements than would have been the case under the previous formula. Further details are provided in the key information section of the report.

3.5 The capital programme is based on the approved HRA Business Plan, updated to reflect current priorities and spending plans and the estimated capital resources that will be available. It can be financed by supported borrowing approvals, the Major Repairs Allowance and estimated Direct Revenue Contributions that are likely to be available in the next 3 years.

#### 4. **KEY INFORMATION**

4.1 The overall budget is influenced by:-

- Annual rent increases under the Government's rent restructuring arrangements whereby Council house rents are to increase above inflation over a number of years to bring them into line with Housing Association rents
- The Government's Housing Subsidy determinations, which include allowances towards management and maintenance costs.
- Capital financing and borrowing requirements

4.2 The Tenants Forum will consider the budget on the 9 January and their views will be reported to the Committee. The Housing Panel is also meeting on the 27 January 2006 to consider the position on the options relating to certain services funded by Supporting People grant and how this impacts on charges for these services in 2006/07 and beyond.

4.3 The draft revenue budget for Council Housing for 2006/07 as well as the revised budget for the current year is summarised on page 1 of Appendix A attached. Further details of budgets for each service area are also shown.

#### **2005/06 Revised Budget**

4.4 The following key variations have arisen compared to the original budget:

- An increase in the cost of void repairs, which have risen from an average of £800 per property at the start of the year to £1,000 per property. The reasons for this include additional electrical work required as a result of new regulations introduced in January 2005
- An increased cost of the Rent Rebate Subsidy Limitation scheme this year
- Rental income has reduced due to sixteen properties (block built bungalows) being removed from stock pending transfer and/or demolition and increased voids
- Costs relating to the sheltered services and energy costs (recovered largely through charges - see further details later in the report)

4.5 The increased costs of the void work can be met by reducing items in the capital programme and adjust the revenue contribution towards this so that there is no net financial impact on the HRA.

4.6 The other additional costs are not a problem as £502,000 of unfinanced capital work that was previously to be met from reserves was financed from capital receipts in 2004/05 and, in addition, there was £40,000 more in these reserves at the start of the year than forecast due to savings in net expenditure and income in 2004/05 compared to the budget

4.7 Overall, this means that there is £462,000 more in reserves than previously forecast and it is proposed that an additional revenue contribution of this amount is made towards the capital programme to leave HRA reserves at £1,033,000 ie the same level as forecast in the original budget.

4.8 This level of reserves is more than adequate and current forecasts suggest that this could reduce to around £700,000 by 2012, which is above the minimum level of £500,000 that is considered appropriate for the HRA. Clearly, this could be affected by a number of factors, including any future changes by the Government to housing subsidy and rent restructuring arrangements.

### **2006/07 Budget**

4.9 The budget for next year incorporates the revenue impact of new service priorities considered and agreed by the Service and Financial Planning Member Group. It also reflects:

- The HRA's share of commitments and savings identified during the service and financial planning process
- An appropriate share of the potential costs and savings relating to the CAST project
- Assumptions in relation to services funded by Supporting People grant, which may need amendment following the Tenants Forum and Housing Panel's consideration of the draft budget and proposed charges for 2006/07

4.10 Average rents will increase by 5% next year, which is the Government limit nationally. This increase is slightly higher than in recent years, and arises from the Government's proposed revision to the Rent Restructuring policy in order to ensure that rents are harmonised with the Registered Social Landlord (RSL) sector by 2012. However the limit on individual property increases remains at RPI + ½% +£2 per week. There are very few tenants that have reached this threshold in past years but the revised arrangements will result in some more tenants doing so.

4.11 The basic reason for the change is that council house rents are not aligning themselves at the rate intended by the Government ie the gap between these and RSL rents will not be achieved over the 10-year rent restructuring period without slightly higher increases.

4.12 There are a number of other items that affect the budget for 2006/07, which are explained below:

- The rent rebate subsidy limitation arrangements is significantly affected as a result of the higher restructured rents and the cost of this will reduce by £106,000 next year
- The budget includes the HRA's share (25%) of the net projected costs of the CAST project, amounting to £116,500. These costs will reduce in 2007/08 and savings should arise in subsequent years
- The cost of void repairs is expected to increase by a similar amount as in the 2005/06 budget due to the increased requirements of the new electrical regulations and other factors but, as in 2005/06, this can be fully offset by a small reduction to the capital programme and the revenue contribution towards this.

4.13 In overall terms, these and other estimated variations in income and expenditure will result in a surplus on the HRA of £121,000. Although a larger surplus of £219,000 was forecast in the HRA Business Plan, the reduced level of surplus is still beneficial for the HRA and helps to keep reserves at a sufficient level to meet future needs.

### **Charges**

4.14 There are a number of issues relating to the charges for services provided for those in specialist accommodation i.e. sheltered schemes and homeless units, which result from the latest position on Supporting People grant and Government subsidy rules.

4.15 The various draft charges being proposed in this report are, therefore, subject to further consideration and the views of the Housing Panel (and the Tenants Forum). Bearing this in mind, the following reflects the current position. More details are provided in Appendix B.

Sheltered Accommodation service charges:

- Supporting People/Accommodation - no increase in supporting people element but in the accommodation element to reflect normal cost increases and there being no inflation increase in supporting people grant. This would result in overall increases of between 1.7% and 4.8% depending on the level of services provided and type of accommodation
- In addition, the estimated costs of sheltered accommodation are reducing in 2006/07 as a result of the ongoing review of the service but there are also a lower number of units to recover these costs from through charges.
- Also, it appears that the Government are capping service charge increases at  $RP1 + 0.5\%$ , which equates to a maximum increase of 3.2%. Clarification on this is being sought but some of the proposed charges in Appendix A have been limited to this increase,

The above will result in an estimated cost of £25,000 falling on the HRA. Costs will reduce in the medium to long-term as further savings are made, which in most cases can only be achieved once a certain number of units can be re-designated as normal Council stock.

In addition, Supporting People Grant of £30,000 is being withdrawn from April 2006 in relation to the Community Alarm service for non-sheltered dwellings. There are a number of options relating to the potential continuation or removal of the service, with varying charging and financial implications. Again, The Housing Panel's views on this will be reported to the next meeting of this Committee.

Heating & Lighting:

- A 40% increase is necessary due to unavoidable increases in energy prices. This is not affected by the issues on Supporting People grant or capping

Homeless Accommodation service charges:

- Accommodation - as above, capped to 3.2%, which only results in a very small cost to the HRA

4.16 Clearly, the position requires some additional explanation, which is given below:

#### Service Charges

- The amount of Supporting People Grant is remaining the same as 2005/06, without any addition for inflation. Therefore, this means that accommodation charges for next year need to cover both our normal cost increases and the 'loss' of that grant inflation increase for there to be no cost to the HRA
- There is uncertainty, however, on whether this approach to fixing charges is appropriate and further advice and clarification is being sought. The Housing Panel will consider the position and their views and recommendations presented to the next meeting of the Committee on the 9 February 2006

## Heating & Lighting

- The higher increase on heating charges is the result of current and anticipated energy prices, which have seen dramatic increases in recent times and there is no indication that this situation will improve markedly in the year ahead
- Heating and lighting costs have risen significantly over the past year but charges were only increased by 10% in 2005/06, although costs have risen by twice as much this year. For example, recent increases in November 2006 have been as much as 40%-50%
- It is suggested that the deficit for this year should be met by the HRA but that the impact of these increases, with an allowance for a further potential rise in 2006/07, requires an increase in charges of 40% next year
- Officers will continue to monitor energy prices and look for ways of reducing costs. If this can be achieved, charges could be reduced during the year
- Although charges in the current year were increased by 10%, there have only been limited increases in charges in the previous 3 years

## **Capital Programme**

- 4.17 Details of this are contained in Appendix C. From this it can be seen that planned spending for the next 3 years is around £3.3m - £3.4m each year. This is to be funded by supported borrowing, the Government's Major Repairs Allowance and direct revenue contributions from the HRA. The costs of supported borrowing are met by Government subsidy. It is currently projected that it may be necessary to undertake a small level of non-supported borrowing in 2008/09.
- 4.18 It should be noted that there is sufficient estimated capital resources available to finance the Council Housing capital programme without the need to use any capital receipts, which can be used to support the General Fund Capital Programme. It should also be noted that the changes in revenue contributions referred to earlier in the report are reflected in the financing projections along with estimates of what may be available from the HRA in future years.

## 5. **APPENDICES**

- A – Draft Housing Revenue Account Budget 2006/07 and Revised Budget for 2005/06
- B – Charges for 2006/07
- C – Draft Council Housing Capital Programme

## 6. **BACKGROUND PAPERS REFERRED TO:**

None

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<b>COUNCIL HOUSING REVENUE BUDGET SUMMARY</b>
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Line	2004/05 Actual £	2005/06 Original £	Revised £	2006/07 Budget £
<b>Income:</b>				
1	-10,383,624	-10,778,080	-10,711,670	-11,157,770
2	-244,057	-226,720	-244,540	-238,510
3	-913,803	-858,250	-856,850	-841,600
4	-98,011	-108,570	-107,800	-151,580
5	-99	-100	-100	-100
6	-6,462	-2,600	-4,670	-2,600
7	-117,664	-137,650	-147,940	-146,240
8	<b>Total Income</b>	<b>-11,763,720</b>	<b>-12,073,570</b>	<b>-12,538,400</b>
<b>Expenditure:</b>				
9	1,890,298	1,771,920	1,854,860	1,872,840
10	1,592,743	1,618,220	1,609,020	1,724,020
11	1,479,327	1,471,230	1,511,080	1,553,590
12	22,181	22,180	22,180	26,830
13	39,289	35,750	39,770	40,780
14	12,363	11,550	12,500	11,550
15	3,439,353	3,285,090	3,291,640	3,660,620
16	228,889	180,000	211,810	73,730
17	3,534,065	3,196,860	3,492,030	3,469,360
18	8,251,390	7,427,840	8,055,380	7,863,740
19	<b>Total Expenditure</b>	<b>20,020,640</b>	<b>20,100,270</b>	<b>20,297,060</b>
20	<b>Net cost of services</b>	<b>8,726,178</b>	<b>8,026,700</b>	<b>7,758,660</b>
21	Net HRA income or expenditure on the asset management revenue account	-7,929,562	-7,100,270	-7,731,060
22	Amortised premiums and discounts	285,250	259,250	259,250
23	Investment income	-72,973	-67,710	-68,660
24	<b>Net operating expenditure</b>	<b>1,008,893</b>	<b>-60</b>	<b>416,890</b>
<b>Appropriations:</b>				
25	Housing set aside/MRP	-102,903	0	0
26	Revenue contribution to capital	110,000	771,000	491,000
27	Transfer to/from Major Repairs Reserve	-1,335,158	-1,044,220	-1,318,360
28	Movement on Pensions Reserve	242,547	211,940	289,410
29	<b>Deficit/surplus (-)</b>	<b>-76,621</b>	<b>535,680</b>	<b>-121,060</b>
<b>HRA Reserve</b>				
30	Balance at 1 April	1,491,727	972,017	1,032,668
31	Surplus / Deficit (-) for the year	76,621	61,340	121,060
32	Balance at 31 March	1,568,348	1,033,357	1,153,728



<b>Council Housing - Capital Programme</b>
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		-----Planned Expenditure-----					Total Cost of Schemes £
		Cost to 31/3/05	2005/06	2006/07	2007/08	2008/09	
		£	£	£	£	£	£
<b>COUNCIL HOUSING SCHEMES</b>							
<b>Planned Maintenance Programmes</b>							
1	Rewiring	41,300	60,000	76,900	219,700	219,700	617,600
2	Roofing	315,200	304,940	202,330	368,910	368,910	1,560,290
3	Windows	427,100	211,400	174,580	61,600	61,600	936,280
4	Doors		147,500	98,690	154,060	154,060	554,310
5	Central Heating		252,300	140,470	278,070	278,070	948,910
6	Kitchens/bathrooms	396,700	402,000	333,200	820,180	820,180	2,772,260
7	Garage doors		30,000	30,000	45,150	45,150	150,300
8	Fences/Gates		89,830	59,320	169,360	169,360	487,870
9	Paths/Walls		73,690	45,830	176,130	176,130	471,780
10	Common Areas				41,840	41,840	83,680
11	Disabled Adaptations		207,500	206,000	223,720	223,720	860,940
12	Electrical Works		20,000	-	20,000		40,000
13	Internal Plumbing		10,000	-	10,000		20,000
14	Asbestos Removal		9,100	9,940			19,040
15	Dampness and Condensation		20,000	-	20,000		40,000
16	Decent Homes - Improvements	16,700	465,000	345,000	100,000	100,000	1,026,700
17	Contingent Major Repairs				19,650	203,880	223,530
18	<b>Total Planned Maintenance</b>	<u>1,197,000</u>	<u>2,303,260</u>	<u>1,722,260</u>	<u>2,728,370</u>	<u>2,862,600</u>	<u>10,813,490</u>

### Council Housing - Capital Programme

COUNCIL HOUSING SCHEMES Other Programmes	Cost to 31/3/05 £	-----Planned Expenditure-----				Total Cost of £
		2005/06 £	2006/07 £	2007/08 £	2008/09 £	
19 Sandringham Court	139,600	950,200	578,500	10,000		1,678,300
20 * Stour House	1,400	125,000	111,220	23,230		260,850
21 * Conversions/Adaptations	93,400	60,000	60,000	35,580	35,580	284,560
22 * Sheltered Units - General Imps.	121,700	193,400	60,000	29,340	29,340	433,780
23 * Smoke Alarms (Babergh Standard)		60,000	60,000	60,000	60,000	240,000
24 * Insulation Improvements (Babergh Standard)				52,000	52,000	104,000
25 * Street parking improvements	13,300	110,120	62,000	54,380	54,380	294,180
26 * Anglia Estate Imps. and Drainage Gt. Cornard	684,600	162,800	150,000			997,400
27 * Badly Neglected Properties		45,000	20,000	20,000	20,000	105,000
28 * Parking areas/Estate imp./Estate maintenance	38,000	198,580	184,340	71,430	71,430	563,780
29 * Structural Works		21,910	172,680	180,670	180,670	555,930
30 * Sewage Treatment works	400	9,400				9,800
31 * Software/Surveys	7,700	36,700	19,000	19,000	19,000	101,400
32 Additional ICT Projects			22,000	62,000	22,000	106,000
33 * Regeneration Schemes		20,000	20,000	20,000	20,000	80,000
<b>34 TOTAL COUNCIL HOUSING SCHEMES</b>	<b>2,297,100</b>	<b>4,296,370</b>	<b>3,242,000</b>	<b>3,366,000</b>	<b>3,427,000</b>	<b>16,628,470</b>

### Total Investment Programme - Proposed Financing

PROPOSED FINANCING	2005/06 £	2006/07 £	2007/08 £	2008/09 £
35 Borrowing - non-supported	-	-	-	55,000
36 Borrowing - supported	571,000	550,000	550,000	550,000
37 Revenue	1,153,000	491,000	563,000	550,000
38 Capital Receipts	373,670			
39 Grants/External Contributions	70,700	50,000	-	-
40 TOTAL CAPITAL EXPENDITURE	2,168,370	1,091,000	1,113,000	1,155,000
41 Major Repairs Allowance	2,128,000	2,151,000	2,253,000	2,272,000
<b>42 TOTAL INVESTMENT</b>	<b>4,296,370</b>	<b>3,242,000</b>	<b>3,366,000</b>	<b>3,427,000</b>

Schemes marked " \* " to be subject to a detailed report before implementation except where already fully approved in the 3 year Housing Strategy or as provided under financial regulations or delegation arrangements.