



Report to: Cabinet

Subject: Housing Revenue Account 2005/2006

Date: 10 February 2005

Author: Head of Finance on behalf of Housing Portfolio Holder

1. **Purpose of the Report**

The report presents to Cabinet the Housing Portfolio holders proposed expenditure and performance plans for 2005/2006.

The proposals in this report are:

- 4.9% increase in rent
- £1m investment in housing stock improvement
- £650,000 revenue contribution to capital expenditure
- An inflation/government guideline increase in other fees and charges ie:
 - Leaseholder Service Charges and Piper Lifelines – inflation in accordance with agreements
 - Garages – % increase in line with rents
 - Other Service charges – 3.6% government guidelines

These proposals have been the subject of consultation with the tenants panel who have expressed their support.

2. **The Housing Revenue Account (HRA)**

The HRA budget together with variance analysis and performance details are attached at Appendix 1 and the bottom line shows the estimated balances at the year end. The figures include a rent increase of 4.9% and the effects of a capital investment of an additional £1,000,000 supported

by prudential borrowing. A revenue contribution to capital expenditure of £650,000 can also be afforded. The impact of this is to increase the Capital Programme for 2005/06 (Appendix 3) to £3,860,500.

This represents a significant increase in investment in stock which could have a beneficial effect on meeting the Decent Home Standard by 2010. However, the position with regard to the Housing Business Plan is unlikely to be materially affected in the long term.

2.1 Income

i) Rent increase

A rent increase for consultation of 4.9% for dwelling rents has been calculated in accordance with the past practice of maximising the rent increase whilst avoiding subsidy limitation penalties. This allows the authority to maximise its investment in housing stock and keep within government guidelines. Included in this calculation is a stepped additional increase in rents which are moving to "Target Rent" over a 10 year period commencing 2002/03.

Other increases are in line with the above or government guidelines where different.

ii) Major Repairs Allowances (MRA)

The HRA receives an MRA of £1,912,400 for 2005/2006. The allowance is based on 13 archetypes and is designed to estimate the long term average amount of capital spending required to maintain the Housing Stock in its current condition. This is used to finance part of the renovation of Local Authority Dwellings.

2.2 Expenditure

i) Capital Charges – Notional Interest

This reflects the cost of the capital tied up in the HRA assets and is made by way of a notional interest charge based on 3½% of the value of Housing Assets. The value of houses, shops, land, garages and non operational assets at 1 April 2005 is estimated to be £173,470,170.

ii) Depreciation – Dwellings

Dwellings are depreciated over their estimated life. The major repairs reserve is credited with the depreciation charge together with an appropriation to the HRA, to ensure that the net credit in the year is equal to the Major Repairs Allowance.

iii) Depreciation - Other

Included within this heading is the depreciation on garages. A corresponding credit amount is included in Transfer from Major Repairs Reserve within the appropriations.

iv) Net Operating Expenditure

Within this section is the reversal of the notional interest charge. This is made to prevent the notional interest charge from distorting the bottom line of the HRA.

The Capital Financing Charges previously charged to the HRA are also shown in this section. The Housing Capital Financing Requirement for 2005/2006 is negative and, therefore, the HRA will be credited with interest at the current investment interest rate of 5%.

Interest on mortgages relating to the sale of council houses together with interest on HRA balances at the current investment interest rate of 5% is also shown in the section.

In addition, the impact of prudential borrowing has been calculated and included here.

2.3 Housing Benefits

Housing Benefits were removed from the HRA in 2004/2005 and are now charged to the General Fund.

To adjust for the impact of the new arrangements and because unsubsidised incentive area costs will no longer be a charge to the HRA but will be met by the General Fund, transitional arrangements have been put in place, whereby the additional cost to the General fund can be met by a transfer from the HRA. The amount specified in the 2005/2006 determination is £31,500 for this authority and the HRA estimates assumes this contribution will be made to the General Fund.

2.4 Housing Revenue Account Subsidy

The level of Housing Revenue Account subsidy is based on the HRA subsidy determinations issued by the ODPM on 16 December 2004.

Entitlement to HRA subsidy is based on a notional HRA, not the actual HRA. Most elements of the notional HRA are pre-set based on known information as at the beginning of the previous financial year. Subsidy for 2005/2006 will, therefore, be based on stock

numbers at 1 April 2004. Details of the subsidy calculation can be found at Appendix 4.

2.5 Resource Development Bids

Resource Development bids of £103,300 have been included within the 2005/2006 budget. These are listed at Appendix 2.

3. CAPITAL PROGRAMME 2005/06

The detailed proposed Capital Programme of £3,860,500 is attached at Appendix 3. It is proposed to finance the programme by the use of the current year's Major Repairs Allowance (MRA) of £1,912,400, undertaking new borrowing of £1,000,000 in line with prudential guidelines, use of capital receipts of £298,100 and a revenue contribution of £650,000.

4. FINANCIAL INFORMATION

The following table shows the amount of additional rent that would be raised at various percentage increases:-

Overall increase	New Weekly rent	New Rebate Figure	Subsidy Penalty	Net Increase	48 week increase
%	£	£	£	£	£
1.51	44.29	N/A	0	115,500	0.71
2.00	44.50	N/A	0	153,400	0.94
3.00	44.94	N/A	0	230,000	1.42
4.00	45.38	N/A	0	306,600	1.90
4.90	45.77	N/A	0	375,200	2.32
5.00	45.81	4,829,780	(4,200)	378,900	2.36
6.00	46.25	4,875,778	(50,500)	409,300	2.84

The recommended rent increase has been determined at 4.9% on the basis of the following assumption:-

The authority will seek to maximise stock investment, without jeopardising the desire to avoid rent subsidy limitations.

As can be seen from the table, increases below 4.9% would reduce the revenue contribution to capital and given rent convergence requirements would require a “catch up” increase in a future year(s). Increases above 4.9% will incur subsidy loss and best value will not be obtained for each £1 charged to tenants.

5 **Recommendation**

That Cabinet determine:-

- i) the level of rent increase for 2005-2006 and approves the Housing Revenue Account elements of the Performance Plan.
- ii) that leaseholder service charges and piper lifelines are increased in line with RPI in accordance with the agreements.
- iii) that garages are increased in line with the rent increase
- iv) that other service charges are increased by 3.6%