



Report to: Cabinet

Subject: Housing Revenue Account 2006/2007

Date: 16 February 2006

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1. **Purpose of the Report**

The report presents to Cabinet the Housing Portfolio holders proposed expenditure and performance plans for 2006/2007.

The proposals in this report are:

- 5.0% increase in rent
- £3.2m investment in housing stock improvement
- £350,000 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 – 3.2% 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 5.0% and the effects of a capital investment of an additional £1,000,000 supported

by prudential borrowing. A revenue contribution to capital expenditure of £350,000 can also be afforded. The impact of this is to increase the Capital Programme for 2006/07 (Appendix 3) to £3,177,300.

This represents a significant increase in investment in stock which could have a beneficial effect on meeting the Decent Home Standard by 2010. .

2.1 Income

i) Rent increase

A rent increase for consultation of 5.0% 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. As part of the Government's announcements on housing rent levels, a reassessment of capital values within the "Target Rent" assumptions has been made. This has had the effect of increasing this target. In line with our current strategy of a graduated move to the target this council could have increased rent by 8.91%. However, Ministers have signified that they do not wish authorities to increase rents by more than 5% in 2006/07. The difference between these percentages represents potential income foregone by the authority, but Ministers are looking at ways in which individual authorities could be compensated for this shortfall.

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

ii) Major Repairs Allowances (MRA)

The HRA receives an MRA of £1,981,200 for 2006/2007. 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 2006 is estimated to be £157,881,200.

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 2006/2007 is negative and, therefore, the HRA will be credited with interest at the current investment interest rate of 4.4%.

Interest on mortgages relating to the sale of council houses together with interest on HRA balances at the current investment interest rate of 4.4% 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 were put in place, whereby the additional cost to the General fund could be met by a transfer from the HRA. These arrangements have now ceased, hence there is no charge to the HRA in 2006/07.

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 20 December 2005.

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 2006/2007 will, therefore, be based on stock numbers at 1 April 2005. Details of the subsidy calculation can be found at Appendix 4.

2.5 Resource Development Bids

Resource Development bids of £67,300 have been included within the 2006/2007 budget. These are listed at Appendix 2.

3. CAPITAL PROGRAMME 2006/07

The detailed proposed Capital Programme of £3,177,300 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 £1,981,200, undertaking new borrowing of £1,000,000 in line with prudential guidelines and a revenue contribution of £196,100 for the 2006/07 programme.

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	Subsidy Penalty	Net Increase	48 week increase
%	£	£	£	£
3.65	47.51	0	290,400	1.81
4.00	47.67	0	318,500	1.98
5.00	48.13	0	397,900	2.48
6.00	48.59	0	477,900	2.98
7.00	49.05	0	557,300	3.48

The recommended rent increase has been determined at 5.0% on the basis of the following assumption:-

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

Ministers have indicated that they do not wish authorities to increase rents by more than 5.0% in 2006/07 and the following year.

5 **Recommendation**

That Cabinet determine:-

- i) the rent increase of 5.0% for 2006-2007 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 3.2%.