

## LONDON BOROUGH OF HARROW

<b>Meeting:</b>	Cabinet
<b>Date:</b>	13 January 2004
<b>Subject:</b>	Housing Revenue Account 2004/05
<b>Key decision:</b>	Yes
<b>Responsible Chief Officer:</b>	Executive Director of Urban Living
<b>Relevant Portfolio Holder:</b>	Councillor Keith Burchell, Portfolio holder for Planning, Development, Housing and Best Value
<b>Status:</b>	Part 1
<b>Ward:</b>	All
<b>Enclosures:</b>	Appendix A Examples of increase in average basic rents Appendix B Housing Association Managed HRA Property Rents Appendix C Charges for Community Halls & Rooms Appendix D Garage, Car Port & Parking Space Charges Appendix E Facilities Charges Appendix F HRA Budget Position

### 1. **Summary/ Reason for urgency (if applicable)**

- 1.1 This report is to enable Cabinet to consider the HRA Budget for 2004/05 and, taking account of comments of the Tenants and Leaseholders Consultative Forum on 8 January 2004, to approve the rent increase and set other HRA fees and charges for 2004/05.

## **2. Recommendations (for decision by Cabinet)**

2.1 The Cabinet is asked to:

- (i) Receive and consider any comments made by the Tenants' and Leaseholders' Consultative Forum of 8 January;
- (ii) Recommend to Council a rent increase for Council dwellings to take effect from 5 April 2004 in line with paragraph 6.5;
- (iii) Approve a revised charge for garages, carports and car spaces to take effect from 5 April 2004, in line with recommendation (ii) above;
- (iv) Approve revised charges for community halls / room lettings and the nightly charge for guest rooms to take effect from 5 April 2004, in line with recommendation (ii) above;
- (v) Approve facilities charges to take effect from 5 April 2004;
- (vi) Approve the proposed rents for short-life properties managed by housing associations, in line with recommendation (ii) above;

**REASON:** To enable the Council to recover an appropriate level of income from rents and associated charges during 2004/05.

## **3. Consultation with Ward Councillors**

3.1 Ward Councillors will be consulted as appropriate with matters of relevance to particular estates.

## **4. Policy Context (including Relevant Previous Decisions)**

4.1 The HRA budget for 2003/04 was reported to Cabinet in January 2003; this report summarises the revised budget position for this year and sets out the anticipated revenue required to meet policy objectives for 2004/05 and balance the HRA.

## **5. Relevance to Corporate Priorities**

5.1 This report addresses the Council's stated priority of enhancing the environment by keeping the borough clean and attractive, and by enabling choice and access to good quality housing.

## **6. Background Information and options considered**

6.1 The HRA Budget for 2003/04, together with the levels of rent and other charges from 7 April 2003, were agreed by Cabinet on 14 January 2003, after consideration by TLCF on 9 January 2003.

- 6.2 Under the 1989 Local Government and Housing Act, Councils cannot budget for the HRA to be in deficit and if the Account is in deficit at the year end, this must be set off against the following year's rent income. The HRA is a landlord account and as a result, only income and expenditure in relation to the discharge of this duty should be accounted for within the HRA.
- 6.3 Following a detailed review of the HRA budgets and taking account of latest Government guidelines, this report sets out the revised budget for 2003/04, the original budget for 2004/05 and proposes a level of council rents and other charges to be made from 5 April 2004. The major issues affecting the HRA budget, are considered below.

### **HRA Budget position**

- 6.4 Appendix F to this report, summarises the HRA Budget. It shows the final outturn for 2002/03, the Original and Revised budgets for 2003/04 and the proposed budget for 2004/05.
- 6.5 The budget assumes that rents are increased by an average of 2.8%, in line with Rent Restructuring Guidance (see paragraph 6.11 below) and that other fees and charges are increased, as proposed in this report.
- 6.6 The budget aims for an HRA working balance at 31 March 2005 of £400,000, equivalent to one week's rental income.
- 6.7 The HRA business plan details the thirty year financial position. A key challenge for Harrow is to achieve the longer term viability of the HRA to maintain its housing services, given the reduced income stream year on year through right to buy. Following the final HRA Subsidy Determination, the subsidy position almost breaks even – that is the loss of subsidy through rental income assumptions and revised Major Repairs Allowance, is offset against additional subsidy for management and maintenance and capital financing charges.
- 6.8 The current business plan will need to be updated with the latest subsidy projections and budget assumptions, and will inform the financial issues which will form the focus for 2004/05 and be developed as part of the 2005/06 budget review.

### **Rent Restructuring**

- 6.9 Under the Government's Rent Restructuring programme, the Office of the Deputy Prime Minister (ODPM) have determined a formula for the calculation of rents, which takes account of value, size and location of individual properties. It is expected that Local Authorities move actual rents over the transitional period (to 2011-12) to the formula level. The annual rents are then known as the transitional rents.
- 6.10 Rent restructuring limits a landlord's ability to set rents to meet anticipated expenditure, and any deviation from the guidelines is discouraged by reductions in subsidy.
- 6.11 By complying with the ODPM Rent Restructuring guidance, average rents in Harrow will increase by an average of £2.13 (2.8%) per week, in 2004/05. The actual increases for different sized dwellings, are set out in Appendix A to this report.

## HRA Subsidy

6.12 The Subsidy Determination for 2004/05 detailed a number of changes that have been taken into consideration as part of the HRA Budget now proposed. The main changes are set out below:

- Rent rebates for council tenants – as part HRA Resource Accounting and the Government's intention that the HRA becomes a Landlord Account, rent rebates paid to tenants, together with the HRA Subsidy received in respect of these rebates, is being removed from the HRA to the General Fund from April 2004. There is currently a net saving on the HRA of £144k as additional subsidy is received for overpayments which are considered recoverable until written off.
- Management and maintenance allowances – these are notional allowances that have been reviewed by Government and result in increased subsidy for Harrow, however, this is offset by a withdrawal of subsidy in relation to rent restructuring (see paragraph 6.10 above).
- Capital financing charges – these charges have been calculated in accordance with the new capital finance regime. Under these new regulations subsidy is paid on the assumed capital financing requirement (CFR) rather than on credit ceilings as previously calculated. In addition to these changes, the Minimum Revenue Provision (MRP) has been abolished from 2004/05. This means that there is no longer a requirement for the HRA to make a contribution to the General Fund in respect of debt repayment which was matched by additional HRA Subsidy, and therefore such changes should be cost neutral to the HRA.
- Prior year determinations – this affects authorities required to recalculate their subsidy credit ceilings as a result of a significant stock changes to bring into the calculation the reserved receipts not previously included. This meant that Harrow was required to adjust its credit ceiling on which subsidy was paid to include the reserved receipts for 2002/03 and 2003/04, which reduces the notional debt outstanding and subsequently subsidy. However, the amendment to the determinations means that only those reserved receipts received from disposal of the stock should be included, which for Harrow was nil. The authority must now apply for a special determination to recover the additional subsidy, anticipated to be in the region of £1.5m.

6.13 Assuming the special determination is approved and the additional subsidy is recovered as detailed in the paragraph above, it is proposed to apply these resources as follows:

	£'000
Restore HRA working balance	400
Reserves on Repairs Account	500
Single Status Building Works [04/05 only]	135
IT development costs	265
Unallocated amount	<u>200</u>
Total	<u>1,500</u>

## **Capital Investment and Maintenance**

- 6.14 The proposed HRA budget for 2004/05 includes an allocation of £5,028,280 for new schemes. This comprises £1,367,880 for revenue contributions to capital outlay [RCCO] and £3,660,400 for schemes funded by the major repairs allowance [MRA]. The programme is currently being drawn up, subject to budget approval, and will be reported to TLCF in March following consultation with tenants and Members.
- 6.15 The proposed HRA budget for 2004/05 includes an allocation of £4,262,540 in respect of responsive and programmed maintenance. This is based on the previous year's budget, adjusted to reflect the reducing level of stock through RTB sales. This budget has been further reduced by the staffing costs of the Council's Out of Hours Team which has budgeted within tenant services as it is proposed that these staff will become direct housing employees in 2004/05. It is proposed that the 2004/05 costs in relation to single status for the building works will be met from the additional subsidy, with the ongoing effects being contained within the repairs budget for 2005/06 and future years.
- 6.16 Whilst the additional HRA subsidy (detailed in paragraphs 6.13 above) results in additional income to the HRA this represents non-recurring income. Without further adjustment the HRA balance for 2004/05 shows a deficit of £97,380. It is proposed that the RCCO in 2004/05 be reduced by this amount to enable a balanced budget to be agreed. Whilst this reduction will impact on the HRA Capital Programme for 2004/05, the achievement of the Decent Homes standard by the Council's target of 2008, should not be significantly affected. Alternatively, the shortfall in 2004/05 could be met from the additional subsidy, with the amounts contained within the overall HRA budget in 2005/06 and future years being met from efficiency savings.
- 6.17 As part of the audit of the 2002/03 accounts, the Council's Auditors have suggested that all expenditure relating to repairs carried out during the financial year, should be accounted for within that year, irrespective of when the invoice for payment is raised. This would require an adjustment [reserve] to be actioned, which in the first year of operation would potentially result in additional charges to the account in the region of £500k. It is proposed that these additional resources be funded from the additional subsidy which is anticipated, referred to in paragraph 6.13 above.

## **Growth**

- 6.18 The HRA Budget for 2003/04 and 2004/05 includes budgetary provision for the setting up and the anticipated full year revenue effect of the ALMO.
- 6.19 Provision for an additional £207,000 has been made in 2004/05 to cover additional salaries costs arising from the implementation of recommendations from the Best Value Review, Your Home Your Needs, and development of the ALMO. This figure is net of capitalisation for a proportion of a number of posts engaged in delivering the improvement programme. A figure will be confirmed once approval has been obtained to the ALMO structure. In addition, the budget includes the financial effects of providing new accommodation for tenant services, resulting in growth of £66,000.
- 6.20 There are also potential additional staff costs anticipated from an actuarial review of the pensions fund relating to housing staff, that may need to be met during 2004/05. Any additional costs will not be known until the review is completed but previous reviews have

resulted in additional contributions in the region of 5%, for which provision has been made.

### **Support Service Charges**

- 6.21 A reduction of £44k in relation to a number of specific support service charges currently met from the HRA has been included in the proposed budget, and reflects the assumed adjustment between the apportionment of charges between the HRA and the Housing General Fund.
- 6.22 A further review of all support charges is expected to commence during 2004/05 as a consequence of both the effects of the New Harrow Project and resulting Council structure, and a review of charges associated with the HRA and its landlord role. It is envisaged that such a review will allow the interdepartmental costs to be more transparent, and enable the base budget to be balanced within the existing rent pool.

### **Inflation**

- 6.23 A sum of £50,000 is included within the HRA Contingency in respect of the as yet unknown 2004 pay award. It should be noted that no provision has been made for general prices inflation. This would have to be met from efficiency or other savings within the HRA, or from the HRA working balance.

### **Other HRA charges**

#### **Housing association managed HRA properties**

- 6.24 The Council owns 4 short-life properties that were leased to and managed by housing associations. The rents for these are charged according to property size and comparable Council rents. These properties have been handed back to the Council and are currently empty, pending a decision as to their future use. Should they be leased back to a housing association, it is proposed that their rents are increased in line with the proposed average increase for Council dwellings in 2004/05. The current and proposed rents are shown in appendix B.

#### **Community halls and rooms**

- 6.25 It is proposed to increase these in line with the proposed average increase for Council dwellings in 2003/04. The current and proposed charges are shown at appendix C.

#### **Garages and parking spaces**

- 6.26 During the current year, a marketing exercise, aimed mainly at the hard to let garages, has resulted in the letting of a large number of vacant garages, reducing the overall void rate from 15% down to about 5%. This has increased the budgeted income for both the current year and 2004/05. A review is now being undertaken to consider the potential for introducing differential charging for the high demand garages. Pending the outcome of this review, it is proposed to increase rents by 2.8% in line with the increase for Council dwellings. The current and proposed charges are shown at appendix D.

## **Facility Charges**

6.27 These are charges made for heating, hot water and lighting, which is provided by the Council in certain properties [mainly sheltered accommodation]. These charges were reduced in April 2002 and frozen in April 2003. Based on the latest projection of utility expenditure for 2004/05, it is proposed that the facilities charges be increased by 2.8% to balance the income and expenditure in this respect. The current and proposed charges are set out in appendix E.

## **Guest rooms in sheltered blocks**

6.28 A nightly charge is made for the use of the guestroom at each of the sheltered blocks. It is proposed that the charge be increased in line with the proposed increase for Council dwellings in 2004/05. The current charge is £5.80 per night and will increase to £6.00.

## **7. Consultation**

7.1 The issues have been discussed with the relevant portfolio holder and this report forms the basis of consultation with members of the Tenants and Leaseholders Consultative Forum to enable any comments to be referred to Cabinet for their meeting on 13 January 2004.

## **8. Finance Observations**

8.1 The report reflects the main financial issues facing the HRA in 2003/04 and 2004/05.

## **9. Legal Observations**

9.1 None other than those incorporated within the report.

## **10. Conclusion**

10.1 The report sets out the main considerations in reaching the budget requirements for 2004/05 and the main assumptions employed in its calculation. It further explains the framework of rent restructuring within which Local Authorities are required to set the rent and other charges.

## **11. Background Papers**

11.1 Budget Working Papers 2004/05  
ODPM guidance on Social Housing Rent Restructuring  
ODPM guidance on Supporting People

Any person wishing to inspect the background papers should telephone 020 8424 1180

## **12. Author**

12.1 Donna Edwards, Finance Manager, Housing Services, Youngman's 2  
Telephone 020 8424 1180  
Email: [donna.edwards@harrow.gov.uk](mailto:donna.edwards@harrow.gov.uk)