

ANGUS COUNCIL

HOUSING COMMITTEE – SPECIAL MEETING

9 FEBRUARY 2004

SUBJECT: HOUSING REVENUE ACCOUNT ESTIMATES 2004/2005 AND RENT LEVELS

JOINT REPORT BY DIRECTOR OF FINANCE AND DIRECTOR OF HOUSING

Abstract: This Report, which makes no recommendations on any rent increase, presents the Housing Revenue Account (HRA) Estimates for 2004/2005. The Report sets out options for the Committee to consider in determining any rent increase for 2004/2005.

1 RECOMMENDATION

- 1.1 It is recommended that the Committee considers the Housing Revenue Account estimates and sets the level of rents taking into account the contents of this report.

2 INTRODUCTION

- 2.1 The Housing Revenue Account (HRA) is a ring-fenced account quite separate from the General Fund. It is regulated by Statute and records transactions relating to the Council's housing stock of currently some 8,874 houses. The Housing Revenue Account has received no subsidy from Council Tax (General Fund) for several years (a situation unlikely to change), but as indicated later, does receive limited Housing Support Grant in respect of Homeless Persons' Hostel Accommodation.
- 2.2 This report relates to the Housing Revenue Account estimates and leads to the point where the Committee can decide upon the level of rents to be charged for 2004/2005.
- 2.3 The estimates are shown in Appendix 1.

3 2003/2004 - PROJECTION TO END OF YEAR

- 3.1 Columns 2 and 3 of Appendix 1 show the original estimates and likely outturn for 2003/2004.
- 3.2 It will be seen that the opening balance at 1 April 2003 was £0.338m (per column 3) as opposed to the estimate of some £0.500m. This was largely due to lower capital financing interest charges (-£0.121m), lower management recharge (-£0.059m) and lower staff costs (-£0.111m) offset by higher maintenance costs (+£0.200m), lower income (+£0.023m), an increase in void rents (+ £0.31m) and an increase in Lost Rents (+£0.191m).
- 3.3 It is estimated that the surplus for the current financial year will be in the order of £0.548m as opposed to a break-even position. This is mainly due to savings in debt charges (-£0.166m), lower C.F.C.R. funding (-£1,009m), and additional income (-£0.10m), mainly from higher grant funding for homelessness. These savings are

offset by a reduction in the amount to be deducted for housing support services (+£0.281m), higher supervision and management charges (+£0.208m), higher special needs and sheltered housing costs (+£0.083m), increased rent arrears write-offs (+£0.022m) and higher insurance charges (+£0.043m).

- 3.4 The lower CFCR funding mentioned in paragraph 3.3 is largely because of the amounts that became available through removing expenditure related to Supporting People from the HRA. This effectively freed up corresponding amounts within the main CFCR provision which could not then be fully used due to the lead-in times for capital expenditure.
- 3.5 The above figures assume a capital spend of about £6.8m (as reported to the January 2004 meeting of the Housing Committee) financed by borrowing arising from Section 94 consent of £1.536m, together with the estimated value of the allowed proportion of capital receipts (£1.167m), and CFCR (£4.115m). If the need for CFCR is actually different from this, due to variations in capital spend or capital receipts, then the closing revenue balance to be carried forward will accordingly vary.

4 2004/5 PRUDENTIAL BORROWING AND CAPITAL PROGRAMME

- 4.1 A significant development in the operation of the HRA comes into effect as of 1st April 2004. Prudential Borrowing is being introduced which removes the limitations of Section 94 consent, allows the Council to decide its own level of borrowing and hence gives the Council greater freedom in determining the size of its capital programme. However the borrowing must be prudent with such borrowing being affordable and sustainable. In pursuit of this 'prudential indicators' must be set and this is referred to in Appendix 3. It should be borne in mind that the Scottish Executive have retained reserve powers to respond to borrowing that is considered by the Scottish Executive to be in breach of national limits.
- 4.2 The January 2004 report to the Housing Committee on the Capital Programme – Housing Revenue Account Block indicated a spend of £9.821m for 2004/5. In the past at this time of the year the indicative figures for the next financial year would have been very much subject to actual Section 94 consent issued, likely capital receipts and the amount of CFCR that would be available flowing from the rent increase decision.
- 4.3 In light of the new Prudential Borrowing regime the figure of £9.821m has been taken as the programme to be pursued and the capital financing figures for 2004/5 have been included in the revenue estimate figures presented, on the basis of this being financed as follows:

	£k
Borrowing	4,280
CFCR	4,541
Capital Receipts	1,000
Total	9,821

The above assumes that set-aside of capital receipts will continue (ie: that 75% of capital receipts will continue to be used to repay debt), but that prudential borrowing will effectively offset it completely.

- 4.4 It should also be noted that for the purposes of prudential borrowing it is assumed that the capital programme will reflect spend figures of £9.5m in each of the financial years 2005/6 and 2006/7 and that again for the purposes of prudential borrowing there will be a rent increase in the order of 4%. It is stressed however that these assumptions are for this purpose only; these are key decisions that will need to be taken at the appropriate time in light of circumstances prevailing at the time.
- 4.5 After taking account of the Prudential Indicators in Appendix 3 it is the view of the Director of Finance that the suggested programme is affordable, sustainable and prudent.

5 2004/2005 – NO RENT INCREASE AND NO SERVICE DEVELOPEMENTS

- 5.1 The 2004/2005 estimates, on the basis of no rent increase, are shown in column 4 of Appendix 1. The figures as framed make provision for a revenue balance at 31 March 2005 of £0.500m. The question of a revenue balance of £0.500m is referred to later.

Particular attention is drawn to the following -

- a) The principal, interest and debt management expenses and CFCR are based on a capital spend of £9.821m financed as stated above.
- b) No “other 2004/2005 Items” as referred to below are included.
- c) Rental income from houses is based on an estimated mid-year stock figure of 8,794 and as indicated above assumes no rent increase. It should be noted that the average rent calculated by reference to current stock profile figures has been taken at £35.72 per week.
- d) Working with the figures as stated results in a closing revenue balance of £0.671m, some £0.171m above the policy level of £0.500m.

6 OTHER 2004/2005 ITEMS

- 6.1 Items totalling £0.411m net are shown in Appendix 2.

7 2004/2005 – ASSUMPTIONS

- 7.1 The 2004/2005 estimate figures as shown in column 4 are developed in Column 5 on the following assumptions and again make provision for a working balance of £0.500m. :-
- a) a rent increase of 2.5% (averaging £0.89 per week) based on the current year average rent figure of £35.72, and an uplift of about £6k for service charges. This would yield an estimated total rent and service charge income from houses of £16.919m, an increase of £0.414m.
 - b) increases in garage and garage site rentals which would yield an additional £0.014m and increases in homelessness accommodation a further £0.006m;
 - c) inclusion of the items totalling £0.411m, (net) as per appendix 2.

d) Inclusion of the 'excess' revenue balance as referred to in 5.1(d) in Housing Repairs.

7.2 The provision for Housing Repairs, if the assumptions in Para 7.1 were to be adopted, would be £4.968m including £0.285m for service developments.

7.3 There has however been some pressure building up on housing repairs. An uplift to the 2003/4 budget by inflation and a further 10% besides, together with the housing-repairs-related service developments of £0.285m, would result in a total sum of about £5.296m. This would require another £328k to be considered in rent increase terms. If such a course of action was to be adopted then the total rent increase would need to be £0.736m. This would represent a 4.5% rent increase. This is reflected in column 6 of Appendix 1.

7.4 The Director of Housing has submitted a separate report on the implementation of a rent and service charge increase of 4.5% and also on the increases in garage and garage site rentals and homelessness accommodation.

8 WORKING BALANCE ETC. CONSIDERATIONS

8.1 The working balance of £0.500m is seen as being necessary to cover adverse movements arising from house sales being lower than anticipated, to cover unavoidable expenditure on Repairs and Maintenance arising from adverse weather etc. and also to provide for a general contingency.

8.2 Any budget adjustments arising from actual house sales will be reported to Committee at the earliest opportunity.

9 OPTIONS

9.1 The options available to the Committee include -

a) Confirm the capital programme next year to be £9.821m to be financed as indicated above, and have no rent increases and no provision for the Other 2004/2005 Items (£0.411m per Appendix 2).

b) Confirm the capital programme next year to be £9.821m to be financed as indicated above; have an average house rent increase of £0.89 per week or 2.5%; have increases in garage and garage site rentals, homelessness accommodation rents (as referred to in para 7.1.b); and make provision for the other 2004/2005 items totalling £0.411m.

c) Confirm the capital programme next year to be £9.821m to be financed as indicated above; have an average house rent increase of £1.61 per week or 4.5%; have increases in garage and garage site rentals and homelessness accommodation rents (as referred to in para 7.1.b); and make provision for the other 2004/2005 items totalling £0.411m. Such increases in rent etc would yield additional income to allow for a further general increase of £0.328m in housing repairs over and above the figure contained in column 5 of Appendix 1.

d) Some other combination of action. In this regard a rent increase of 22p would yield approximately £100k.

10 COMPARISON WITH OTHER LOCAL AUTHORITIES

- 10.1 In previous years, Angus Council tenants enjoyed rents amongst the lowest in Scotland. It should be noted that 49.48% of Angus Housing Revenue Account tenants are presently on Housing Benefit.
- 10.2 For information, 2003/2004 original rent levels for selected authorities were :-

	per week £
Angus Council	35.72
Dundee City Council	43.42
Perth & Kinross Council	35.59
Aberdeenshire Council	38.12
Midlothian Council	31.57
City of Aberdeen Council	39.90
East Ayrshire Council	38.27
Fife Council	38.94
Scottish Average	42.36

11 HOUSING SUPPORT GRANT, GENERAL FUND CONTRIBUTION AND THE 75% CAPITAL RECEIPTS RULE

- 11.1 Angus Council's HRA attracts Housing Support Grant (HSG) in respect of Homeless Persons' Hostel Accommodation as shown as Appendix 1. No general portion of HSG is received.
- 11.2 For a number of years the Council has not been allowed to make any contribution to the HRA from the General Fund. It is most unlikely that there will be any change in 2004/5.

12 HUMAN RIGHTS IMPLICATIONS

- 12.1 There are no Human Rights implications arising from this report.

13 CONSULTATION

- 13.1 The Chief Executive and the Director of Law and Administration have been consulted on this report.
- 13.2 In addition, extensive consultation with tenants was carried out to meet the council's requirements in terms of the Housing (Scotland) Act 2001. A questionnaire was sent to every tenant explaining the budget proposals and requesting opinions on an inflation only(2.5%) rise, an inflation and service development rise (4.5%) and an service development plus rise (5%). It was also explained that any excess revenue raised beyond that needed would be devoted to enhancing the unplanned maintenance service .
- 13.3 Results were encouraging with 887 replies(a 10% return) and the results as shown:

Option 1 – 2.5%	28.0%
Option 2 – 4.5%	42.7%
Option 3 – 5%	22.4%
Other	6.9%

Whilst it is a legal requirement to consult on a rise with tenants, it is still for the committee to decide on the rent rise as the responsible authority.

NOTE

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

JC/MB/PH
27/01/04

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APPENDIX 2

£000

Housing Revenue Account**Budget Bids 2004/5****Housing Management****Tenant Participation**

Additional funding required for permanent post of Tenant & Community participation Officer as a result of cessation of Scottish Executive funding 22

Single Shared Assessor (3 posts)

To allow the Department to comply with its statutory obligation under Joint Futures to carry out needs assessments. This is also needed to meet Supporting People needs to ensure that Housing Support can be appropriately assessed and met. 73

Housing Improvement Co-ordinator

Creation of post to deal with major stock improvements, including consultation with owner/occupiers and ensure that the council conforms to the statutory Social Housing Standards/ Housing Improvement Taskforce 11

Total**106****Housing Revenue Account****Research Programme**

Enhancement of Research Budget 20

Aids and Adaptations

Additional funding required to allow department to address Audit Scotland concerns 25

Angus Safe as Houses Initiative

Contribution to initiative 7

Gas Contract

33

Hazardous Materials Management

Health and Safety Regulations now include domestic properties covering stairs, communal areas, sheds and garages. Required for asbestos/legionella. 50

Repainting Programme

Changes that have been introduced re working height regulations 155

Ground Maintenance

Additional funding re Environment and Quality of Life 15

Total**305****Grand Total****411**

APPENDIX 3

**Housing Revenue Account
Prudential Borrowing**

Prudential indicators must be set and monitored having regard to the following matters:

- affordability (eg: effect on rents)
- prudence and sustainability (eg: implications for external borrowing)
- value for money
- stewardship of assets
- service objectives
- practicality

In terms of agreeing the Housing Revenue Account estimates and rent increases the Committee should note the following indicators:

Estimates of ratio of financing costs to net revenue stream

This indicator shows the proportion of the net revenue stream that is consumed by capital financing charges

<u>2003/4</u>	<u>2004/5</u>	<u>2005/6</u>	<u>2006/7</u>
11.85%	9.73%	10.30%	10.59%

Estimates of the incremental impact of capital investment decisions on housing rents

This indicator indicates the additional rent per week on an incremental basis arising from the increase in capital spend due to Prudential Borrowing. The figures are based on a comparison with estimates of what the position may have been under the existing S94 regime.

<u>2003/4</u>	<u>2004/5</u>	<u>2005/6</u>	<u>2006/7</u>
N/A	+£0.18	+£0.69	+£1.16

Estimate of Capital Expenditure to be incurred

This indicator sets out the level of capital spend envisaged in the years shown.

<u>2003/4</u>	<u>2004/5</u>	<u>2005/6</u>	<u>2006/7</u>
£6.818m	£9.821m	£9.500m	£9.500m

Estimates of capital financing requirement

This indicator shows the outstanding debt at the close of the years shown.

<u>2003/4</u>	<u>2004/5</u>	<u>2005/6</u>	<u>2006/7</u>
£23,152m	£24.411m	£25.334m	£26.198m

Notes

1. Other Prudential Borrowing indicators of a Council-wide nature (which will embrace the above information) will be dealt with at the Council Tax setting meeting.
2. 2003/4 figures are shown where appropriate for information