

KIRKLEES METROPOLITAN COUNCIL	
REPORT TO:	Housing Briefing Budget Briefing Cabinet
DATE:	13th January 2004 23rd January 2004 4th February 2004
TITLE: HOUSING REVENUE ACCOUNT - REVENUE BUDGET 2004/5	
STATUS OF REPORT: Public	
AREA COMMITTEES/WARDS AFFECTED: All	
IS THIS AN URGENT ACTION APPROVED BY THE CHAIR OF OVERVIEW AND SCRUTINY?	
No	
KEY POINTS	
<p>The report is supported by the following appendices (attached to the detailed report) :</p> <p>Appendix 1 : HRA Budget 3 year summary ; 200/05 to 2006/07 Appendix 2 : Schedule of proposed 2004/05 increases for rents and service charges Appendix 3 : KNH Management Fee proposal for 2004/05 Appendix 4 : Repairs and Maintenance Budget 2004/05 Appendix 5 : HRA Balances position Appendix 6 : Delegate feedback from HMC consultation exercise (to follow)</p>	
WHAT ARE THE KEY POINTS?	
<ul style="list-style-type: none"> ➤ Central Government has made some significant changes to future funding of the HRA, effective from 1 April 2004, in particular: <ul style="list-style-type: none"> i) national review of management and maintenance allowances, resulting in an additional HRA subsidy gain for Kirklees of £2.2M in 2004/05 ii) transfer of rent rebates from HRA to general fund ; estimated impact on HRA, upto £55k iii) Housing capital financing reforms; net impact on HRA, an additional subsidy gain of £1.3M in 2004/05. ➤ Central Government prescribed rent restructuring path to 2012, which would result in a rent rise of 3.1% on average in 2004/05. ➤ Various cost pressures e.g. Inflationary increases on repairs and maintenance of 6% and 3.7% on salaries, plus significant cost pressures in particular within general management, around support cost budgets, of upto £558k. 	

- Subsidy allowance allocated by Central Government in 2004/05 in support of cost of borrowing against Decent Homes Capital Programme has resulted in a net gain of £2.7M, which could be earmarked to reserves to part fund Decent Homes overall 'Affordability Gap' ; currently estimated to be in the region of £21M over the lifetime of the Programme.
- Rental income continues to be particularly affected by significant and sustained demand for Right to Buy sales, anticipated to be in the region of 940 in 2004/05; estimated rent loss in 2004/05 of some £1.1M.
- Taken together, the above key points plus other factors outlined in the detailed report, result in a gap between expected income and expenditure of £1.1 million in 2004/5. This gap must be addressed to balance the HRA as we are legally obliged to do.
- Several options are recommended over the next three years, including:
 - a) Reprofiting of repairs and maintenance budgets in line with current and future spending projections, proactively managed by KNH
 - b) The improvement of performance to reduce lost rent on empty homes and bad debt provision for uncollected rent
 - c) Review management costs
- The detailed effect of these and other options, including proposals for utilisation of HRA balances, are contained in the main report and in the financial appendices attached
- An average rent rise of 3.1% is recommended for HRA dwellings, and 3.1% rise for non-HRA dwellings. This will mean an average rent of £50.34 over 48 weeks.
- It is recommended that current service charges and other rents (e.g. garage rents), be increased in line with Central Government RPI increase of 2.8%.
- The Concierge charge increase for 2004/05 is recommended to be at RPI of 2.8% plus £2, therefore increasing the charges towards actual costs in line with rent restructuring. The charges for all blocks are different as they are based on the actual costs for individual blocks.
- The proposal for the KNH Management fee (revenue) for 2004/05 is £10.7m, which is net of a 2% reduction against standstill, in line with a comparative reduction for general fund services and a partial reflection of reduced stock numbers. It is also proposed to incorporate a performance related element into the overall fee, effective from 2003/04.

RECOMMENDATION

That members :

- a) approve the contents of this report and the proposed rent increase of 3.1% for HRA dwellings and non-HRA dwellings
- b) approve an increase in service charges and other rents in line with RPI of 2.8%
- c) approve an increase for concierge services of 2.8% plus £2
- d) approve the management fee (revenue) of £10.7m to be paid to KNH in 2004/05, plus the incorporation of the performance incentive element in the manner prescribed in the detailed report
- e) approve the proposal for utilisation of balances in the manner prescribed in Appendix 5 to the detailed report

CONSULTEES

This report reflects the views of tenants at the KFTRA October meeting, and tenants and Members consulted at Housing Management Committees during December 2003 and January 2004, the feedback from which is shown in Appendix 6

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KIRKLEES METROPOLITAN COUNCIL

HOUSING BRIEFING – 13th JANUARY 2004
BUDGET BRIEFING – 23rd JANUARY 2004
CABINET – 4th FEBRUARY 2004

REPORT BY: DIRECTOR OF HOUSING

HOUSING REVENUE ACCOUNT – REVENUE BUDGET 2004/05

1. INTRODUCTION

- 1.1 The Council is responsible for approving the Housing Revenue Account (HRA) budget, including the rent increase necessary to balance the account. Legally a balanced budget has to be approved, detailing estimated costs and income for providing landlord services for the next financial year. Within the budget is the management fee to run Kirklees Neighbourhood Housing (KNH), who, since April 2002, have been managing the Council's housing services to tenants.
- 1.2 The Budget process for the HRA is heavily influenced by the Government's financial regime, in particular the rules of rent restructuring and subsidy.
- 1.3 The HRA budget for 2004/05, as presented in Appendix 1, reflects various cost pressures, and the effect of the proposed savings and increases in income to balance the budget.
- 1.4 The budget is built up using the standstill HRA budget as the starting point, also illustrated in Appendix 1. The standstill HRA budget represents the 2003/04 budget inflated to 2004/05 outturn prices (inflation), which results in an initial £761k deficit. This deficit is due in the main to the following :
 - i) assumed inflationary increases applied to expenditure and income ; 6% on repairs and maintenance, 3.7% salaries , 3.1% on HRA & other dwellings income, 2.8% service charges & other rents
 - ii) revised rental income standstill due to right to buy demand in excess of current year budgetary assumptions,
 - iv) Management & Maintenance Allowance overall increase in line with the recommendations contained within central Government's recent consultation paper, of 12.5% (this compares to a 6% increase in the previous year)
- 1.5 The following section highlights some of the key budgeted expenditure and income pressures further impacting on the £761k standstill deficit position , which inform what the overall requirement will be to balance the HRA budget in 2004/05.

2. Budget pressures impacting on standstill

2.1 Expenditure related

2.1.1 General Management +£558k (excluding KNH Management Fee)

A number of support cost budgets have been increased from standstill to reflect the actual current costs of service delivery, including Kirklees Direct, +£84k, Revenues & Benefits Cashiering and Information +£43k, Legal Services +£270k, and Intech +£130k and Estates, +£108k. Notwithstanding these budget pressures, KNH is currently reviewing traditional Council support service provision, working alongside support service providers and the Directorate, to ensure that such providers give value for money.

Strategy & Partnerships increase of +£103k, is mainly attributable to central insurance charges, in particular arising from increases in employee liability insurance premiums.

2.1.2 Other Expenditure +£2,659k

Contribution to balances, increase of +£2,677k, which represents the anticipated net subsidy allowance gain arising in 2004/05, noting that ODPM has still to confirm the actual subsidy allowance. This has arisen because of a difference between what central government has allocated to HRA to fund the assumed cost of borrowing against the ALMO SCA in support of the Decent Homes Programme (£6,908k), versus the anticipated costs of borrowing, as calculated by the Council's Corporate Accountancy section (£4,231k).

It is proposed that this contribution to balances will be earmarked specifically in support of funding the currently projected resource deficit or 'affordability gap' of £21M (see also Section 4, utilisation of HRA Balances).

2.2 Income related changes from standstill

2.2.1 Subsidy Income - £4.0M

Of this amount, -£2.7M represents the 'net' subsidy allowance allocated by Central Government in support of the costs of borrowing against the ALMO SCA in 2004/05, as referred to in section 2.1.2 above. The other -£1.3M represents a further net subsidy gain to HRA following Central Government implementing a number of housing capital financing reforms from 1 April 2004. These have necessitated a corresponding technical adjustment to the methodology for calculating HRA subsidy entitlement

2.2.2 Reduced Rent Income due to Sales +£1.1M

The housing stock continues to reduce due to Right To Buy sales and other disposals. In 2004-05 it is estimated that this will reduce rent income by about £1.1M.

2.3 Requirement to balance the budget

The net impact of the above adjustments from the standstill position results in a revised budget deficit in the region of £1.1M in 2004/05.

3.0 Proposals To Balance The Budget

3.1 HRA & Non-HRA dwellings rental increases

- 3.1.1 The HRA standstill position assumes an average rent increase of 3.1% for HRA dwellings and 3.1 % for non-HRA dwellings , for 2004/05.
- 3.1.2 The Government has effectively prescribed rent levels to 2012 through rent restructuring. The proposed average rent limit (the maximum that can be charged without incurring rent rebate subsidy limitation) for Kirklees in 2004/05 is £46.47 over 52 weeks (£50.34 over 48 weeks) ; an average 3.1% increase from the previous year. Any rental increase above this level would incur subsidy penalties, and any variation from 3.1% would have future year implications to keep rents on track to 2012 in line with rent restructuring guidelines. It is recommended therefore that HRA dwellings rents for 2004/05 are increased by an average of 3.1%.
- 3.1.3 In addition to the above, it is proposed that service charges (other than concierge - see below) and other rents, be increased in line with government RPI of 2.8%.
- 3.1.4 Concierge charges will be increased by the maximum amount as allowed by rent restructuring in an attempt to recover the full cost of providing the service. The charges for individual blocks are all different as they are based on the costs of individual blocks. A schedule of the proposed 2004/05 charges for rents and service charges is attached at appendix 2.

3.2 Reduce the cost of managing the service

- 3.2.1 This will be the third year of the Council's five year contract with its arms length management organisation , KNH , which is in place to manage landlord services for the Council. KNH are funded using a management fee which covers the costs of 360 staff and their overheads including accommodation and support service costs. The fee is reflected as a third party payment in the HRA accounts.
- 3.2.2 KNH are responsible for managing their own budget and are required to prepare company accounts. Other budgets, such as the capital budgets and revenue repairs and maintenance expenditure will continue to sit within the Council's accounts but will be managed by KNH (monitored by the Council Executive member and Council Officer and considered by Cabinet and Council particularly where approvals are required).
- 3.2.3 Last year, KNH's management fee was varied in line with the number of houses sold under Right to Buy. If continued this time round, KNH would 'lose' over

£350,000. KNH's view is that this would mean cutting nearly 15 staff at a time when the organisation are trying to improve services (to reach 3 stars by April 2005). However, the rest of the Council's services have been asked to look at reducing costs by 2%, which would represent a "saving" to the HRA against the fee, of £218k. KNH have agreed the proposal to revise their fee from the standstill position, by 2%.

- 3.2.4 Appendix 3 attached shows the build up of the proposed KNH management fee for 2004/05, at £10.7m (revenue), which incorporates the 2% default reduction referred to above, and as well a specific growth bid of £158k for currently unbudgeted investment team staff.
- 3.2.5 In addition to the above, it is also proposed that there is an 'incentive' fee payment made available to KNH for the remainder of their current contract with the Council, to reward management performance around voids and former tenants arrears in excess of the already challenging performance targets set through the budget process. This could result in additional fee income (or reduction) to KNH, dependent on the extent of the performance gain (or loss) relative to performance targets built into the HRA budget. The incentive payment wouldn't be factored into the HRA budget as such, as it represents additional resources gained in excess of budgetary targets set.
- 3.2.6 The timing of the incentive payment would be early in the financial year following the one against which the incentive payment was measured. It is further proposed that the incentive payment be initiated starting with 2003/04 performance on voids and former tenants arrears, which, based on current projections, could result in an incentive payment to be utilised specifically by KNH to fund developments in support of it gaining 3 star status in April 2005, which is when the service will next be formally inspected.

3.3 Reduce the Budget for Repairs & Maintenance

- 3.3.1 Current year monitoring on repairs and maintenance continues the trend of the latter half of 2002/03, and is projecting a significant underspend against the overall repairs & maintenance budget, currently in the region of some £3.2M against a current year budget of £18.9M. There are a number of factors contributing towards this trend, including the following:
- proactive management action to manage and control demand for relatively higher unit cost responsive repairs jobs,
 - increased batching of responsive repairs where possible to secure better value for money in accordance with audit commission recommendation to work towards a 60:40 planned versus responsive repairs ratio (current ratio 52:48)
 - reduced costs around voids consistent with improved voids turnaround times
- 3.3.2 A reduction in the overall repairs and maintenance budget by some £1m next year against standstill would still maintain a budget provision well in excess of current expenditure trends by some £1.5M, which is intended to be earmarked for 'cyclical maintenance' within planned repairs for next year. Appendix 4

attached shows a more detailed breakdown of the proposed repairs and maintenance budget for 2004/05.

- 3.3.3 It should further be noted that the recent corporate best value review of building maintenance contracts has resulted in a Partnership between KNH, Building Services and Design & Property Service, with a specific remit to formulate and implement a best value service improvement plan over the next 18 months. This is intended to have a significant and positive impact in terms of maximising value for money for tenants in respect of future year HRA repairs and maintenance budgets.

3.4 Performance Improvements

- 3.4.1 Targets have been identified and agreed with KNH for improved performance in a number of key areas, and these are already built into the HRA standstill position and subsequent 3 year budget proposals. As mentioned previously in section 3.2 above, performance improvements in excess of budgeted targets in respect of voids and former tenants arrears are incorporated into specific incentive payment proposals to KNH, starting from 2003/04.

4.0 Utilisation of HRA Balances

- 4.1 A report on HRA Balances was presented to Executive Briefing Finance-Sub on 31 October 2003, outlining current and projected HRA Balances over the next 3 years, with a specific recommendation that HRA Balance utilisation proposals would be formalised through the budget process, in accordance with CIPFA good practice guidelines on the requirement for and utilisation of Local Authority balances and reserves ; starting therefore with the 2004/05 budget process.
- 4.2 CIPFA guidance on reserves and balances consolidates previous good practice guidelines and further emphasises the importance of assessing balance requirements in the context of the Local Authority's medium term financial plan.
- 4.3 Attached at Appendix 5 is a table indicating current and projected HRA balances over the next 3 years, and indicative proposals for their utilisation. Key among the proposals are the following :
- i) 'working balance' . This is based on a range of current HRA 'business indicators', including current monitoring and Best Value Performance Indicators, and would act as a prudent ,ongoing minimum balance requirement to deal with in-year fluctuations in areas such as right to buy, interest rates and performance related income,
 - ii) 'earmarking' of subsidy allowance gains over the next 3 years , as a specific contribution towards the currently projected £21M Decent Homes Capital Programme 'Affordability Gap',

iii) contribution towards the offsetting of projected deficits in the HRA as identified over the next 10 years, in the HRA Business Plan

4.4 The proposals within Appendix 5 will be subject to periodic review.

5. CONSULTATION

5.1 The report reflects the comments and recommendations of Housing Briefing of 13 January 2004.

5.2 The options set out in this report were subject to consultation with all Housing Management Committees through a report considered in December 2003 and January 2004, the outcome of which is summarized in appendix 6.

5.3 KNH Board have received information about the overall HRA situation and are aware of the proposals contained in this report. KNH Officers have been involved in discussions about the Budget strategy for the next three years (and beyond). KNH are preparing their own budget, working on the basis of the management fee proposed in this report.

6. IMPLICATIONS

6.1 Policy/Equal Opportunities

6.1.1 None

6.2 Resources

6.2.1 The summary HRA budget for 2004/05 is presented in Appendix 1, reflecting the effect on budgets of the proposed savings and increases in income outlined in sections 3 and 4 above.

6.3 Management

6.3.1 None

6.4 Monitoring and Review

6.4.1 The 2004/05 HRA budget will be monitored and reported to Housing Directorate Group, Lead Member for Housing, and Strategic Finance on a four weekly cycle throughout the year. Quarterly updates drawing attention to key variances will be submitted to Housing Briefing, Scrutiny and Cabinet. The financial performance of KNH will be monitored and reviewed on a quarterly basis along with their performance against the targets set out in the Delivery Plan at the formal Quarterly Review meetings which form part of the accountabilities process between KNH and the Council.

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