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COMMUNITY COMMITTEE - 18<sup>th</sup> JANUARY 2007

AGENDA ITEM 9

HOUSING REVENUE ACCOUNT ESTIMATES AND RENT LEVELS 2007/2008

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### **Summary**

1. This report sets out the 2007/08 draft estimates for the Housing Revenue Account (HRA). The amount of rent incorporated into the estimates is based on rent levels which are based on formulae set out by central government and are for confirmation by this Council.

### **Situation**

2. At 1 April 2006, there were balances of £500k in the HRA, £336k in the Housing Repairs Account and £942k in the Major Repairs Reserve. The original budget for 2006/07 maintained the HRA balance at £500k, planned to draw £239k from the Housing Repairs Account and use virtually all of the Major Repairs reserve.
3. The revised estimates within this report indicate that the balance on the HRA can increase by £25k to £525k by 31 March 2007. The balance of £336k on the Housing Repairs Account is reduced to £142k

RECOMMENDED that this Committee:

Accept the draft estimates as presented for 2007/2008 and confirm that:

- The weekly dwelling rents increase by an average of 5%, in line with the Government's proposals;
- Garage rents increase from £7.20 to £7.40p per week (2.8%) and that heating and sewerage charges are increased by 2.5%.
- Supporting People charges are increased from April 2007 in accordance with the contract with the Commissioning Body, and that protection be increased against the warden service charge for all those tenants at 31st March 2003 who are ineligible for supporting people grant assistance.

### **Background Papers**

- Uttlesford DC Housing Strategy
- DCLG HRA & HRA Subsidy Determinations 2007/2008
- Budget working papers 2007/08

## HRA Balances

4. The Audit Commission's Annual Audit Letter for 2004/05 indicated that the HRA Balance may be lower than desirable. This report starts a process of putting £25,000 per annum into balances to address the situation.

## Management and Maintenance - Revised Estimate 2006/07

5. The Housing Revenue Account's revised estimate 2006/07 for the direct costs of Management and Maintenance has reduced from £3,521,590 to £3,267,960. The reduction of £253,630 is due largely to reduced staffing costs in property services and a substantial drop in expenditure on external decoration schemes.

## Management and Maintenance - Estimate 2007/08

6. The Management and Maintenance estimate for 2007/08 has increased by £316,020 (9%) to £3,837,610. A review of central recharges has contributed to an increase of £177,000 in the central recharges costs charged to the HRA, which together with an additional £40,000 in respect of Choice Based Lettings represent the bulk of the increase.

## Impact of ODPM Subsidy Rules

7. The ODPM issued subsidy determinations on the 19<sup>th</sup> December 2006 for 2007/2008. The determination covers all elements of the HRA, most of which are fixed.
8. The subsidy mechanism identifies notional levels of expenditure and rent and other income. The notional net income/(expenditure) then forms the level of subsidy payment to Central Government/(from Central Government).
9. The 'notional' surplus to be paid is estimated to amount to £4,225,650 for 2006/2007 and £4,484,540 for 2007/2008. The elements of the calculation are shown below.

<u>Elements of the Calculation</u>	2005/2006	2006/2007	2007/2008
	£'000	£'000	£'000
Management and Maintenance	3,389	3,610	3,767
Anti-social Behaviour Strategy	1	0	0
Major Repairs Allowance (MRA)	1,800	1,808	1,850
Rent (based on guidelines)	(9,061)	(9,724)	(10,354)
Rental Constraint Allowance		45	193
Interest Receipts	(1)	(1)	(1)
Capital Charges	58	36	60
Sub-total – fixed by ODPM	(3,814)	(4,226)	(4,485)
Rent Rebate element	N/A	N/A	N/A
Total notional deficit / (surplus)	(3,814)	(4,226)	(4,485)

10. The subsidy calculation no longer includes a nominal amount of £1,000 towards the cost of preparing an anti-social behaviour strategy but includes a new element for Rental Constraint Allowance. This element has been introduced in recognition of the fact that rents are not able to be increased in line with the subsidy calculations.
11. Criteria for calculating rent levels for UDC housing stock include the following government defined parameters:
- Formula rent – Rent level after full convergence.
  - Guideline rent – Rent level assumed in Subsidy calculation.
  - Limit rent – Maximum rent allowed without a proportion of ‘excess’ Housing Benefit payments being added to the negative subsidy payment.

The average levels applicable to UDC are listed in Table A.

<b>Table A – UDC Subsidy Rent Parameters</b>			
	2006/07	2007/08	Increase
	(£/week)	(£/week)	(£/week)
Formula Rent	73.83	76.85	3.02
Guideline Rent	65.89	70.28	4.39
Limit Rent	68.23	72.23	4.00

### **Dwelling Rent Increases**

12. The DCLG is continuing the process, which over the ten-year period 2002/03 to 2011/12, is designed to bring about, a converging pattern of rents for all similar social housing properties. Based on government set criteria, rent levels will vary according to local property values and manual earnings. Over the next five years current will need to be adjusted to move towards the “formula rent” derived from the ODPM formula.
13. Failure to increase rents in line with these expectations would make it increasingly difficult to pay the calculated HRA surplus to the Government.
14. The DCLG have indicated that the average rent increase for 2007/08 should essentially follow the previous year’s rules. These included limits and caps such that increases should not exceed a maximum of RPI plus 0.5% in real terms plus a movement towards the Formula Rent of up to £2 per week. In addition, for 2007/08 (as with 2006/07), the average increase in rents for each authority was limited to a maximum of 5% (although individual properties may increase by more than 5%). The DCLG have also indicated that when applying the rent increase, regard should be given to the general concept of rent restructuring.

15. The increase of 6.7% (7.9% in 2006/07) to the guideline rent cannot be recovered from the increase in real rents when the average increase is restricted to 5%. The DCLG have therefore introduced a new subsidy element called “the Rental Constraint Allowance” in order to compensate for this restriction.
16. It is proposed that all rents be increased by an average of 5.0% including a 1/5 move towards the new formula rent. This will increase the calculated average rent from £66.21 to £69.52 a week and would increase rental income by £432,800. Individual rent changes range between a 2% reduction and 7.5% increase.
17. Rent weeks begin on a Monday and therefore there will be 53 weekly rent debits raised in 2007/08. Income from week 53 will be apportioned to the appropriate financial years and there is no scope for a rent free week.

### **Supporting People**

18. The “Supporting People” arrangements introduced from April 2003 mean that tenants receiving warden services now pay charges designed to recover the full cost of those services. Those tenants who qualify receive assistance with these charges through the County Council. Tenants who would not otherwise qualify, but who were in receipt of the service when the scheme began, are partially subsidised from the HRA.
19. Charges for Supporting People sheltered services were increased to £15.09 per week from April 2006, in line with inflation. As a result of government constraints, the administering body approved a reduced rate of £13.58 per week. It is proposed that the 2007/08 charge is provisionally set at £13.92 per week based on the 2006/07 reduced rate plus 2.5% for inflation. Tenants, who were in receipt of the service when Supporting People grant started are charged a reduced rate of £6.02 and it is also proposed that this charge is increased to £6.17 per week.
20. Similarly, it is proposed to reduce “Lifeline” charges from £3.35 to £3.09 based on the 2006/07 grant level of £3.01 plus 2.5% for inflation.

### **Charges to Tenants for Common Services**

21. The government has been promoting the “de-pooling” principle to charge the actual tenants for specific services that they receive. This would thereby remove the net cost from the HRA and consequently those tenants not benefiting from those specific services. There has been no further progress towards further “un-pooling” of services during the year. The difficulties in identifying services that are additional to those fundamental to tenancies are common to all Local Authorities with housing stock.

## **Charges to non-tenants**

22. Charges for services initially shown within the HRA must by law be charged on where they are provided for the wider use of the community. For Uttlesford, this applies to sewerage and certain other services for non-tenants where charges are based on actual costs.

## **Other Rents and Charges**

23. Heating charges to tenants on the communal boiler are relatively small, though energy prices have been subject to substantial increases and it is therefore proposed to increase the charges by 2.5%, which is estimated to increase income by £2,000.
24. Garage rents - It is recommended that garage rents are increased by 2.8% from £7.20 to £7.40 for the year. This is estimated to raise £4,500 in additional income.
25. Sewerage charges - It is proposed to increase sewerage charges by 2.5%. This is estimated to increase income by £1,000.

## **Feedback from Tenants Panels**

26. A combined meeting of the Tenants Panels is scheduled before the Committee meeting where the contents and recommendations of this report will be considered. A report on the results of this consultation will be given orally when this report is presented.

## **Conclusions**

27. The proposed HRA for 2007/08 as proposed in this report will be sustainable.
28. The recommended rent increase of an average of 5% in rent levels is in line with Government recommendations. Other items are recommended to increase by inflation where possible.
29. The Community Committee is asked, with the benefit of feedback from the Tenants Panels, to confirm the rent increase for 2007/08 and the other changes built into the budget, including service charge and garage rent levels.