

Agenda Item No: 2 – Health and Housing Committee 21 January 2003

Title: Draft Housing Revenue Account Estimates and Rent Setting 2003/04

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Summary

- 1 The two objectives of this report are firstly to set out the draft estimates for the Housing Revenue Account (HRA) and explain the significant items and changes included within the figures, and secondly to determine the rent levels for 2003/04, in the context of the statutory requirements for rent restructuring and convergence (“Formula Rents”). These include the need to “un-pool” warden service costs and make “Supporting People” charges from April 2003 and consider new options available for charging for common services.

Base Position

- 2 The HRA working balances at 1 April 2002 were maintained at their budgeted recommended minimum level of £500,000.
- 3 Apart from repairs, the overall outturn position was within £10,000 of Revised Estimate for 2001/02, An additional revenue contribution to capital funded £16,130 of additional work on the improvement programme and the HRA’s contribution to the Housing Repairs Account was reduced by £6,636. After taking account of £90,534 less expenditure in-year on repairs than budgeted this left a balance of £304,920 on the Repairs Account at 1 April 2002.

Revised Estimates 2002/2003

- 4 Soon after the budget was approved last year it was reported to this Committee that the prices received for redecorations were creating budget pressures. Subsequent overall budget management and the review of the Repairs and Improvement Programmes in the summer resulted in an increased revenue contribution to capital in 2002/2003 of £208,000, to be met by a reduction in the HRA contribution to the repairs account of £151,000 and £57,000 more recharged to capital for works supervision.
- 5 Apart from this, a number of other up and down variations have been largely neutral in their overall effect. Increased rent rebate levels mean increased subsidy. More houses have been sold under right-to-buy than originally budgeted and rental income has correspondingly reduced. This will be offset by reduced expenditure on supervision and management as detailed below.
- 6 On the two following pages will be found a summary of the major variances in the Management and Maintenance estimates for Revised 2002/2003 and the Base Budget 2003/2004. The detailed budgets appended have been prepared at estimated outturn prices, including 3.5% known for April 2003 pay awards.

Revised Estimate 2002/03

- 7 The Housing Revenue Account's revised estimate 2002/03 for the direct costs of Management and Maintenance excluding internal charges is £2,661,840. This is a decrease of £121,180 from the adjusted base budget. The major components of this variation are emphasised in the table below:-

	£'000	£'000	£'000
Base Estimate 2002/2003			3,330.4
<u>Less</u> HRA Share of Corporate Costs		(194.5)	
<u>Less</u> Internal Charges		<u>(311.5)</u>	(506.0)
<u>Less</u> Costs transferred to General Fund			<u>(41.4)</u>
Adjusted Base Direct Costs			2,783.0
<u>Repairs and Maintenance</u>			
Committee Decisions			
<u>Plus</u> Redecoration Costs (Minute HH35)	30.0		
<u>Less</u> Adjustments to ad-hoc repairs programme (Minutes HH35 and HH7)	(150.0)		
<u>Plus</u> Decent Homes Survey (Minute HH20)	<u>25.3</u>	(94.7)	
Other Variations			
<u>Less</u> More repairs charges income		(6.9)	
			(101.6)
<u>Supervision and Management</u>			
Inflation			
<u>Plus</u> 2002 Pay Award Adjustment		5.2	
Other Variations			
<u>Plus</u> Grounds Maintenance – Tree work	9.6		
<u>Less</u> Common Services – Chlorination	(10.0)		
<u>Less</u> Common Services – Furniture	(12.0)		
<u>Less</u> Common Services – Cleaning	(9.3)		
<u>Less</u> All other variations (net)	<u>(3.1)</u>	(24.8)	
			(19.6)
Total Variation			(121.2)
Revised Estimate 2002/2003 - Direct Costs			2,661.8
<u>Plus</u> HRA Share of Corporate Costs		194.5	
Internal Charges (net)		<u>285.6</u>	480.1
Revised Estimate 2002/2003			<u>3,141.9</u>

Estimates 2003/2004

- 8 The Housing Revenue Accounts Estimate 2003/2004 for the direct costs of Management and Maintenance excluding internal charges is £2,678,630. This is a decrease of £74,390 against the adjusted 2002/2003 base budget. The major components of this variation are emphasised in the table below.

	£'000	£'000	£'000
Adjusted Base Direct Costs (as Revised)			2,783.0
<u>Less</u> 2002/03 one-off cost – Tenant Handbook			<u>(30.0)</u>
Adjusted Base Direct Costs for 2003/04			2,753.0
<u>Supervision and Management</u>			
Supporting People			
<u>Less</u> New SP Service Charges	(320.9)		
<u>Less</u> Other Variations (net)	<u>(6.5)</u>	(327.4)	
<u>Plus Inflation</u>			
October 2002 Pay Award Adjustment	10.4		
April 2003 Pay Award	37.4		
April 2003 National Insurance Increase	10.5		
New Gas Contract (fixed to June '04)	7.8		
Other Inflation	<u>5.2</u>	71.3	
Other Variations			
<u>Plus</u> Staffing Costs – increments etc.	19.3		
<u>Less</u> Oakroyd House costs	(26.6)		
<u>Less</u> Common Services – Chlorination	(10.0)		
<u>Less</u> Common Services – Cleaning	(9.7)		
<u>Plus</u> Statutory 3 yearly Satisfaction Survey	7.8		
<u>Plus</u> Required Annual Valuation Updating	7.0		
<u>Plus</u> Estate Roads – Repairs	11.7		
<u>Less</u> Other Variations (net)	<u>(2.5)</u>	(3.0)	
			(259.1)
<u>Repairs and Maintenance</u>			
Housing Repairs Account			
<u>Plus</u> Inflation (mainly boiler service contract)	50.8		
<u>Plus</u> Decoration programme variations	242.9		
<u>Plus</u> Legionella Management	41.0		
<u>Less</u> Adjustments to Ad-hoc Repairs	<u>(150.0)</u>		
			184.7
Total Variation			(74.4)
Base Estimate 2003/2004 - Direct Costs			2,678.6
<u>Plus</u> HRA Share of Corporate Costs		199.5	
Internal Charges (net)		<u>316.0</u>	<u>515.5</u>
Base Estimate 2003/2004			<u>3,194.1</u>

The budget position for 2003/2004

- 9 For Supervision and Management, the major changes relate to the new Supporting People arrangements from April 2003 which are discussed in more detail below. Members will also note that a one-off sum has been included for the unavoidable costs of the statutory customer satisfaction survey which must be carried out every three years. A similar sum, but ongoing, has also been included for stock revaluations required annually now for audit purposes to confirm the calculation of capital charges.
- 10 For Repairs, the opening balance of £285,350 on the Housing Repairs Account is shown as reducing to £137,420 by the year end. This reflects the large planned redecoration programme next year which reduces to previous levels again in subsequent years.
- 11 The stock condition survey recently commissioned is expected to identify the work required to bring our properties up to the “decent homes” standard. The Improvement Programme will be reviewed over the next few months once the survey results have been assessed. No HRA revenue contribution to that Programme is shown since officers will be recommending the use of available credit approvals to give access to the HRA’s own set-aside capital receipts and provide additional capital funding flexibility. Some of these receipts are expected to derive from the sale of Oakroyd House in the near future.
- 12 The figures presented show a revenue contribution to capital of £70,000. This is a carry forward of the amount budgeted last year for computer system enhancements which are not now expected to be required until after March 2003. No cost is now expected for that part of the upgrade necessary to implement ODPM requirements for progression to formula rents over the next 9 years.

Accounting Notes

- 13 The HRA summary is now presented to reflect the new resource accounting layout expected under the new financial framework from April 2001. The changes largely relate to charges for capital, many of which are reversed out again. This is the first occasion on which it is possible to show comparative entries from 2001/02 onwards. The 6% cost of capital figures are indicative only at this stage being dependant upon stock revaluations yet to be carried out. They are completely reversed out within the HRA but do indicate an upward trend in the value of the stock.
- 14 Under the new Supporting People arrangements from April 2003 the Council becomes a provider of warden services under contract to the Commissioning Body with charges designed to recover the full costs. This major change raised the question of whether the service should still be accounted for within the HRA. A letter received from ODPM on 12 December 2002 confirmed the decision that authorities should retain their discretion to account for such support services either within the HRA or the General Fund. No obvious benefit has been identified to change existing practice. Conversely there are

positive benefits to be had from comparative figures for the new and old arrangements and a clear separation from the Council's other General Fund enabling role. Accordingly, no change has been made in presenting these figures.

Impact of ODPM Subsidy Rules

- 15 The ODPM issued its final rent guidelines and subsidy determinations for 2003/04 on 17 December 2002. The guideline rent for 2003/04 is set at £55.09, an increase of £2.36 per week over last year. The limit rent is increased by £2.06 to £58.56. Both amounts are based on a 3.25% increase on last year's recalculated amounts, plus or minus one ninth of the resulting difference from the average formula rent for 2003/04 of £60.37.
- 16 The subsidy mechanism works by using the guideline rent increase figure to calculate how much of the cost of rent rebates should be met from the HRA. Where rebates cost less than this calculated amount, the surplus has until now always been transferred to the Council's General Fund. However, section 90 of the recently published Local Government Bill makes provision for such surpluses to be paid over to the Secretary of State in future. Accordingly, the estimates for 2003/04 have been prepared on that basis.
- 17 Rebates for next year have been estimated on the basis of a "3.25% plus or minus a ninth" rent increase. This £2.13 increase is lower than the ODPM's guideline increase of £2.36. The result is that for 2003-04, the estimate for rebates is lower relative to the rent income used in the subsidy calculation. In consequence, subsidy entitlement is reduced to the extent that there is a notional HRA surplus.

<u>Elements of the Calculation</u>	2001/2002	2002/2003	2003/2004
	£'000	£'000	£'000
Management and Maintenance	2,688	2,733	2,749
Major Repairs Allowance (MRA)	1,659	1,660	1,658
Rent (based on guidelines)	(8,055)	(8,236)	(8,487)
Interest Receipts	(19)	(20)	(11)
Other Elements	65	12	12
Sub-total – fixed by DTLR	(3,662)	(3,851)	(4,079)
Rent Rebates (as shown)	3,784	3,845	3,824
Overpayments Recovered (net)	6	30	30
Adjustment for backdating etc	-	13	19
Total notional deficit / (surplus)	128	37	(206)

- 18 It must be emphasised that the cost of rent rebates is very difficult to estimate accurately, especially given changes to the pattern of rents resulting from restructuring and the un-pooling of service charges. For 2002/03 the revised estimates have been based on rebates at a level of 44.95% of rents, the position assessed in December 2002. This is higher than the 44.13%

originally estimated and has turned the small notional HRA surplus expected for 2002/03 into a small estimated deficit.

- 19 For 2003/04 a slightly lower estimate of 44.70% has been used because charges for warden services will no longer be eligible for rent rebates and the client group for those services has, at about 63%, a higher proportion on rent rebate. The HRA itself will continue to be largely unaffected by the estimated rebate percentage. It is Housing Subsidy, or the transfer to the Secretary of State, which will go up or down with any change in rent rebate levels from that estimated.

Dwelling Rent Increases

- 20 The concept of formula rents is a relatively simple one. The ODPM is continuing the process which, over the ten year period from April 2002, is designed to bring about, by using a formula method, a converging pattern of rents for all similar social housing properties. Rent levels will vary according to local property values and manual earnings. Over the next nine years current rents must, alongside the usual increases, be gradually adjusted year by year to move closer to the formula rent derived from the ODPM formula.
- 21 Unfortunately, the practicalities of putting this simple concept into effect are rather complex. Attached as appendix HRA1 is the ODPM's own published guidance on the subject, "A Guide to Social Rent Reforms in the Local Authority Sector", which was published on 17 December 2002
- 22 Using an extensive spreadsheet containing all the data necessary to calculate formula rents, officers have been able to model rent increases on an individual property basis. There is still some doubt as to whether all the necessary modifications to the computer system will be in place in time to permit automatic implementation for the April increases and other changes. Nevertheless, it is essential that formula rent progression is in place for 2003/04 even if a degree of manual intervention is needed to make it happen.
- 23 The real options for rent increases are now very constrained by ODPM expectations about rent increases nationally. An average increase much below the "3.25% plus or minus a ninth" assumed by the ODPM in its guideline and limit rents is not advised. This is the default increase assumed when preparing the detailed figures presented which show that this is the order of increase necessary to give the HRA a sustainable budget position. A higher percentage rent increase is therefore not recommended, although there would now be some limited scope for one before penalties became imposed through the subsidy system.
- 24 The ODPM continues to expect that no tenant should be faced with a rent increase exceeding 2.2% plus £2. The higher the rent increase percentage the more likely it is that individual rent increases are limited to the 2.2% plus £2 maximum. At "3.25% plus or minus a ninth", about 7% of tenants will benefit from this protection. The amounts though are relatively small, making only 2p a week difference to the average unprotected rent increase. Overall

the modelled result is an average protected increase of £2.13, the same as the flat rate increase for 2002/03. This is equivalent to an average of 3.84% on current rents without the warden service element, but does vary considerably from tenant to tenant. Some representative examples are given in Appendix HRA2.

- 25 The above position takes into account all the effects of “un-pooling” service charges, which are discussed further below. These fall into two main categories. Firstly there are Supporting People charges for warden services and Lifeline where changes are unavoidable. Secondly there are other service charges, particularly those for common services provided to blocks of flats, where changes are now possible and desirable, but optional.

“Supporting People” and the disappearing “windfall”

- 26 The new “Supporting People” arrangements from April 2003 mean that tenants receiving warden services will be charged the full cost of those services. At present these tenants pay £5.40 only as an element of their rent. The full cost of the service in 2001/2002 worked out at £13.38 per client per week. Therefore, the remaining £7.98 previously borne as a pooled cost by all tenants should represent additional income to the HRA, referred to in total as a “windfall” by the ODPM.
- 27 When this “windfall” was first identified by the ODPM they made it clear that if housing authorities were to be allowed to keep it, the additional income should not be used to keep rent increases down. This was in the context both of the progression to formula rents and partial Government funding of the “windfall” through Supporting People grant payments to qualifying tenants in place of rent rebates. Accordingly the ODPM sought an indication from the Council as to how it intended to use the “windfall”. At its meeting on 30 May 2002 (minute HH5 refers) this Committee determined that the money should be applied towards meeting the Decent Homes standards. The presented “3.25% plus or minus a ninth” rent increase acts as confirmation of this earlier decision.
- 28 Subsequently, the ODPM confirmed on 12 December 2002 Ministerial approval to transitional protection for existing tenants who do not qualify for grant assistance under Supporting People. This protection is expected to come from the “windfall”. In line with ODPM expectations, about £76,000 use of the “windfall” has accordingly been built into the 2003/2004 budget for such protection. In addition there is some loss of rent rebate subsidy on the warden service element of rents no longer eligible for rebate because the guideline rent has not been correspondingly reduced in the subsidy calculation. In practice the combined effect is that the expected “windfall” is now very much reduced.
- 29 The supporting people charges will reflect the contracts to be entered into with the Commissioning Body based on audited 2001/2002 costs. To allow for inflation on this historic base position percentage increases have been notified for each of the two elements of the charge. For the element already charged

in 2002/2003 there is a 2.9% uplift. For the “un-pooled” £7.98 element the uplift is 2.5% for each of the two years 2002/2003 and 2003/2004. The charges to tenants for 2003/04 calculated on this basis are:

- Lifeline Services - £3.09 weekly charge (no “un-pooled” element)
- Warden Services - £13.94 weekly charge (£8.38 “un-pooled” element)

Charges to Tenants for Common Services

- 30 One characteristic of formula rents is that they do not take account of the differing levels of common services provided at each block of flats. The current points system based rents do, to some extent, reflect such local circumstances. Unless corrective action is taken, the progression to formula rents will mean that a growing proportion of the costs of providing these services will gradually become pooled costs borne by the tenants as a whole.
- 31 The subsidy rules have been a disincentive in the past to keep up to date the rents points allowed so as to truly reflect the actual costs of providing the services. Penalties on subsidy have potentially applied when there was other than a standard rent increase applied across the board. The rules have now changed to remove this disincentive and permit a degree of flexibility within the overall £2 plus 2.2% protection.
- 32 To separate out these service charges before applying the “3.25% plus or minus a ninth” increase would result in less income for the HRA or higher increases for other tenants. However, applying the rent increase before separating out avoids that situation and also gives tenants the £2 plus 2.2% protection on the changes. Agreeing to separate out will therefore impact neither on the HRA budget as presented, nor on tenants. These service charges remain eligible for rent rebate.
- 33 The exercise would thus not produce any extra income for the HRA immediately. The result will be simply to identify the service charge element separately from the rent. Over the course of the next nine years the underlying rent would still be expected to progress towards the ODPM formula rent. Eventually the service charges would indeed represent extra income above the formula rent level to cover the cost of service provision.
- 34 These costs primarily relate to communal TV aerials, cleaning, lighting and the routine maintenance of lifts and fire extinguishers. Provision of these services varies between locations. Officers are currently finalising a table of such costs which will be made available when the report is presented. Charges to tenants would not be expected to include elements for administration, grounds or premises maintenance costs which are covered in the rent. To that extent they differ from charges made to leaseholders of sold properties.
- 35 All of the above costs are regular and fairly predictable, varying only with inflation. However, this does not apply to the replacement of furniture at sheltered accommodation with common rooms, which can vary considerably

year on year. It may not be considered appropriate for the client group concerned to be faced with charges subject to large variations year on year because of the inclusion of an element for furniture.

- 36 There are two practical ways to address this issue. One is to charge for furniture but only on a flat rate estimated basis averaged over time. It is assessed that this would add about £1.20 per week to the charge at the locations involved. The other way is to regard such costs as maintenance costs for the premises concerned and transfer furniture budgets to the Repairs Account where they would fall to be met by tenants as a whole.
- 37 A decision will be required on whether furniture should be included as an element of the charge if Members agree to separate out service charges from April. It should be noted that, although tenants of flats would face higher increases in future than they would do otherwise, in general their current rents are relatively high compared with formula rents. In most cases their "3.25% plus or minus a ninth" increase is well below average, in some cases it even represents a rent reduction.

Charges to non-tenants

- 38 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 refers particularly to sewerage and service charges for non-tenants. Although not necessarily reflected in the base figures at this stage any necessary adjustments to charges must be made.
- 39 The effect of all such changes is relatively small. In practice, prudent adjustments to the provision for bad debts in respect of rent arrears are likely to cancel the effect of these altogether. For this reason no further specific reference is made to such recharges to non-tenants in this report.

Other rents and charges

- 40 Heating charges to tenants on communal boiler systems were last reviewed and reduced three years ago. Fuel costs have been relatively stable since then but the budgets have now been increased to reflect new contracts. This would suggest that charges should be raised by about 3.5% to produce an additional £3,300 per annum. This is not a large sum, has not been assumed in the budget figures presented and is obviously not a matter of great urgency. Given the other service charge alterations facing this client group, Members may decide to defer any increase for the time being.
- 41 Garage rents were increased two years ago from £4.00 to £5.00 per week. Officers have now carried out another survey of neighbouring authorities which shows that our rent levels have since started to fall behind. Details will be provided orally at the meeting. Members are asked to consider whether a further £1 increase from April is appropriate. This should produce about £27,000 but no allowance has been made in the presented budget figures.

- 42 The extent to which sewerage charges recover costs still varies between locations. In some instances the charges have now reached a level to cover costs, in a few cases there is still some way to go. Historically, individual increases year on year to bring charges into line with costs have been limited to a maximum of 5%. No change in practice is being recommended.

Feedback from Tenants Panels

- 43 A combined meeting of the Tenants Panels is scheduled for the evening of 20 January 2003, 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

- 44 The figures presented with this report demonstrate that a rent increase for 2003/2004 based on the ODPM's expected "3.25% plus or minus a ninth" should produce an average £2.13 per week and a level of income sufficient to balance the books. They also show the effects of "un-pooling" warden service costs, the new Supporting People charges and the associated protection expected by ODPM to be given to existing tenants .
- 45 The Health and Housing Committee is asked, with the benefit of feedback from the Tenants Panels, to confirm that rent increase and the other changes built into the budget. Decisions are also sought on service charges and garage rents.

RECOMMENDED that this Committee:

- a) Accept the draft estimates as presented reflecting the following ODPM expectations for 2003/2004 on the basis that any effect of its further decisions below will be reflected in the published Budget Book;
 - A weekly dwelling rent increase of 3.25% plus or minus one ninth of the resulting difference from the ODPM formula rent for 2003/2004 limited so that no tenant shall have an increase exceeding 2.2% plus £2,
 - Supporting People weekly charges to tenants of £13.94 for warden services and £3.09 for Lifeline services,
 - Protection against the "un-pooled" £8.38 element of the warden services charge for all those tenants at 31 March 2003 who will be ineligible for grant assistance under Supporting People from April 2003;
- b) Determines its view on increasing garage rents from April 2003 to a standard rent of £6 per week (plus VAT for non-tenants);
- c) Determines whether it wishes to increase Heating Charges from April 2003 by amounts equivalent to a 3.5% increase;
- d) Decide in respect of charges for common services at flats:
 - Whether they should be separated out from the protected post-increase rent for 2003/2004, and

- If so, that such charges will reflect the assessed costs of communal TV aerials, cleaning, fire extinguishers, lifts and lighting, and
- Whether the charges should also include an element for replacement furniture for the common rooms in sheltered accommodation

Background Papers:

Uttlesford DC Housing Strategy 2003/2007

ODPM letter "Accounting for Support Services .." 12 December 2002

ODPM HRA Determinations 2003/2004

ODPM HRA Subsidy Determinations 2003/2004