

Committee: Health and Housing Committee
Date 2 February 2004
Agenda Item No: 2
Title: Draft Housing Revenue Account Estimates and Rent Setting 2004/05
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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 2004/05 in the context of the statutory requirements for rent restructuring and convergence ("Formula Rents"). Consideration is also given to major changes in the treatment of HRA rent rebates and the HRA capital framework.

Base Position

- 2 The HRA working balances at 1 April 2003 were maintained at their budgeted recommended minimum level of £500,000.
- 3 Lower than estimated net costs, particularly on supervision and management, permitted an increase in the HRA's contribution to the Housing Repairs Account. Some of this increase went to fund additional repairs expenditure but the balance of £449,450 on the Repairs Account at 1 April 2003 was £164,000 more than the Revised Estimate. This will act as a useful cushion for the current peak in the repairs Programme.

Revised Estimates 2003/2004

- 4 It appears that a similar picture is emerging for 2003/2004. At this stage, it is expected that an additional £65,310 will be added to the Repairs Account, although £22,500 of this relates to the sheltered accommodation furniture budget being transferred to the Housing Repairs budget. This follows from the decision taken last year not to make furniture replacement the subject of a service charge to tenants.
- 5 The projections for rent rebates show an increase of £85,000 from the original budget. However, because of the HRA subsidy calculation, such changes are largely neutral for the financial position of the HRA itself. Instead, this change is reflected in the lower transfer for negative subsidy. A reduced sum of £122,000 is now expected to be transferred out of the HRA, but to the Council's General Fund not to the First Secretary of State as originally expected.
- 6 A £23,500 reduction in the estimated cost of transitional protection to existing tenants, in this first year of the new "Supporting People" arrangements, is the largest of a number of other relatively small variations which act to cancel each other out. The revenue contribution to capital has been retained at £70,000

despite the fact that the upgrade to the Housing IT system will now be delayed until 2004/05. This capital funding will of course remain available until required.

Revised Estimate 2003/04

- 7 The Housing Revenue Account's revised estimate 2003/04 for the direct costs of Management and Maintenance excluding internal charges is £2,684,400. This is an increase of just £9,070 from the adjusted base budget. The major components of this variation are explained in the table below:-

| | £'000 | £'000 | £'000 |
|--|-------|---------|----------------|
| Base Estimate 2003/2004 | | | 3,190.8 |
| <u>Less</u> HRA Share of Corporate Costs | | (199.5) | |
| <u>Less</u> Internal Charges | | (316.0) | (515.5) |
| Adjusted Base Direct Costs | | | 2,675.3 |

Repairs and Maintenance

Additions to Programme

| | | | |
|-----------------------------------|------|-------------|--|
| <u>Plus</u> Legionella Management | 55.0 | | |
| <u>Plus</u> Pre-painting Repairs | 10.0 | | |
| <u>Plus</u> Response Repairs | 3.3 | 68.3 | |

Reduction to Programme

| | | | |
|---|--|--------|--------|
| <u>Less</u> External Decoration Schemes | | (84.5) | (16.2) |
|---|--|--------|--------|

Supervision and Management

Inflation

| | | | |
|--------------------------------------|--|-----|--|
| <u>Plus</u> Gas, oil and electricity | | 2.1 | |
|--------------------------------------|--|-----|--|

Other Variations

| | | | |
|--|--------|-------------|--|
| <u>Less</u> Staffing turnover etc (net) | (10.3) | | |
| <u>Plus</u> Independent Tenants Advisor | 3.0 | | |
| <u>Plus</u> Lighting and Lifts | 15.4 | | |
| <u>Plus</u> Reduced Service Charge income | 9.8 | | |
| <u>Plus</u> General Fund Valuations (rechargeable) | 7.5 | | |
| <u>Less</u> All other variations (net) | (2.2) | 23.2 | |

25.3

Total Variation

9.1

Revised Estimate 2003/2004 - Direct Costs

2,684.4

| | | | |
|--|-------|-------|--|
| <u>Plus</u> HRA Share of Corporate Costs | 199.5 | | |
| Internal Charges (net) | 264.3 | 463.8 | |

Revised Estimate 2003/2004

3,148.2

Estimates 2004/2005

- 8 The Housing Revenue Accounts Estimate 2004/2005 for the direct costs of Management and Maintenance excluding internal charges is £2,802,390. This is an increase of £134,860 against the adjusted 2003/2004 base budget. The major components of this variation are explained in the table below.

| | £'000 | £'000 | £'000 |
|--|------------|--------------|-----------------------|
| Adjusted Base Direct Costs (as Revised) | | | 2,675.3 |
| <u>Less</u> 2003/04 one-off cost – Satisfaction Survey | | | <u>(7.8)</u> |
| Adjusted Base Direct Costs for 2004/05 | | | 2,667.5 |
| <u>Supervision and Management</u> | | | |
| <u>Plus</u> Inflation | | | |
| April 2004 Pay Award | 33.8 | | |
| Gas, oil and electricity | 13.1 | | |
| Other Inflation | <u>2.2</u> | 49.1 | |
| Other Variations | | | |
| <u>Plus</u> Staffing Costs – increments etc. | 3.1 | | |
| <u>Less</u> Supporting People Charge Increase | (8.7) | | |
| <u>Plus</u> Added for Capital Programme growth | 90.0 | | |
| <u>Plus</u> General Fund Valuations (rechargeable) | 7.5 | | |
| <u>Plus</u> Options Appraisal | 25.0 | | |
| <u>Plus</u> Reduced Service Charge income | 9.8 | | |
| <u>Plus</u> Estate Maintenance | 22.2 | | |
| <u>Plus</u> Independent Tenants Advisor | 2.0 | | |
| <u>Plus</u> Other Variations (net) | <u>0.4</u> | 152.3 | |
| | | | 201.4 |
| <u>Repairs and Maintenance</u> | | | |
| Housing Repairs Account | | | |
| <u>Less</u> Programme changes for 2004/05 | | | (66.5) |
| Total Variation | | | 134.9 |
| Base Estimate 2004/2005 - Direct Costs | | | 2,802.4 |
| <u>Plus</u> HRA Share of Corporate Costs | | 200.5 | |
| Internal Charges (net) | | <u>155.3</u> | <u>355.8</u> |
| Base Estimate 2004/2005 | | | <u>3,158.2</u> |

The budget position for 2004/2005

- 9 The major changes relate to the implications of the expanded capital programme taking advantage of the transitional measures for debt-free authorities to use 75% of right-to-buy receipts which would otherwise be paid

over to the government under new pooling rules. The allowance shown of £90,000 for additional works supervision is equivalent to about 2.5 staff. These costs, and more, will be recovered by way of increased recharges to capital. The overall effect is shown in the reduced internal charges figure near the foot of the preceding page.

- 10 The balance on the Housing Repairs Account is shown as increasing slightly by the year end, from £385,460 to £395,730. This demonstrates that the HRA contribution is set at a level sufficient to be sustainable. The balance itself provides a prudent level of reserves against year on year or unexpected fluctuations in the repairs programme. Setting the HRA contribution to the Repairs Account at this level still permits a revenue contribution in further support of the capital programme of £350,000.
- 11 From April 2004 Rent Rebates will no longer be accounted for in the HRA. This expenditure will appear in the General Fund in future, offset by 100% rent rebate subsidy from the Department of Work and Pensions (DWP). Although the subsidy is nominally 100%, there still remain elements of expenditure that do not qualify for subsidy, in particular overpayments of one sort or another.
- 12 The existing HRA subsidy rules give a limited allowance towards such elements which the DWP say will not be given to the General Fund. For the next three years, therefore, arrangements have been made by the government to allow time for the General Fund to adjust. In practice this will take the form of a transitional transfer from the HRA to the General Fund. An amount of £76,000 has been included for 2004/2005. This would be expected to reduce to 38,000 for 2005/2006, and to £19,000 for 2006/2007.

Accounting Notes

- 13 The HRA summary is presented to reflect the resource accounting layout expected under the new financial framework since April 2001. The figures shown for capital charges are quite large and in some cases vary considerably from the original estimates. The cost of capital figures is calculated as a percentage of the housing fixed asset values. Although the valuations at the beginning of the year were increased, the percentage rate applied has decreased, resulting in the net change as shown. However all such changes are reversed out again and are neutral in revenue budget terms. The increase in the dwelling depreciation figure reflects amounts allowed for the Major Repairs Allowance in the subsidy calculation. The full amount is earmarked for capital funding.

Impact of ODPM Subsidy Rules

- 14 The ODPM issued its final rent guidelines and subsidy determinations for 2004/05 on 18 December 2003. The guideline rent for 2004/05 is set at £57.96, an increase of £2.87 per week over last year. The limit rent is increased by £2.55 to £61.11. Both amounts are based on a 3.96% increase on last year's recalculated amounts, plus or minus one eighth of the resulting difference from the average formula rent for 2003/04 of £62.86.

- 15 The subsidy mechanism works by using the guideline rent increase figure to calculate the notional surplus or deficit on the HRA. Until 2003/04, where the HRA was still in surplus after deducting the cost of rebates, any surplus had to be transferred to the Council's General Fund. In future rent rebates will no longer be accounted for in the HRA and, as from April 2004, any calculated surpluses will be paid over to the First Secretary of State. This change is a year later than we were led to expect and a negative subsidy surplus will now be transferred to the General Fund for the last time in respect of 2003/04.
- 16 The surplus to be paid over for 2004/2005 will be £3,761,000. This figure is lower than the rent rebate subsidy the HRA would have received under the old rules. It thus represents a pool of additional resource that the government is making available for housing purposes. These more generous subsidy arrangements are the prime reason for being able to significantly increase the revenue contribution to capital.

| <u>Elements of the Calculation</u> | 2002/2003 | 2003/2004 | 2004/2005 |
|------------------------------------|-----------|-----------|-----------|
| | £'000 | £'000 | £'000 |
| Management and Maintenance | 2,733 | 2,749 | 3,112 |
| Anti-social Behaviour Strategy | 0 | 0 | 1 |
| Major Repairs Allowance (MRA) | 1,660 | 1,658 | 1,782 |
| Rent (based on guidelines) | (8,236) | (8,487) | (8,701) |
| Interest Receipts | (20) | (11) | (2) |
| Capital Charges | 12 | 12 | 47 |
| Sub-total – fixed by ODPM | (3,851) | (4,079) | (3,761) |
| Rent Rebates (as shown) | 3,845 | 3,845 | N/A |
| Overpayments Recovered (net) | 30 | 30 | N/A |
| Adjustment for backdating etc | 13 | 13 | N/A |
| Total notional deficit / (surplus) | 37 | (122) | (3,761) |

- 17 It will be noted that, for next year, the calculation includes a nominal amount of £1,000 towards the cost of preparing an anti-social behaviour strategy in line with government expectations. The more significant increases are for maintenance, capital charges and the Major Repairs Allowance. All of these are designed to encourage more resources to be targeted at "Decent Homes".

Dwelling Rent Increases

- 18 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 still vary according to local property values and manual earnings. Over the next eight years current rents must, alongside the usual increases for inflation, be gradually adjusted year by year to move closer to the formula rent derived from the ODPM formula.
- 19 Using an extensive spreadsheet containing all the data necessary to calculate formula rents, officers are able to model formula rent increases on an

individual property basis. There is now a definite expectation on the part of the ODPM that its methodology and percentages will be used by every authority. Failure to increase rents in line with these expectations will make it increasingly difficult to pay the calculated HRA surplus to the Government.

- 20 Any real options for rent increases are now very constrained. An average increase much below the “3.96% plus or minus an eighth” assumed by the ODPM in its guideline and limit rents is not advised. This is therefore the default increase assumed when preparing the detailed figures presented which show that this order of increase gives the HRA a sustainable budget position and permits increased capital investment to progress “Decent Homes”. A higher or lower percentage rent increase is therefore not recommended.
- 21 The ODPM continues to expect that no tenant should be faced with a rent increase exceeding inflation plus 0.5% plus £2. The higher the rent increase percentage the more likely it is that individual rent increases are limited to the 3.3% plus £2 maximum. At “3.96% plus or minus an eighth”, about 5% of tenants will benefit from this protection. The amounts though are relatively small, making only 1p a week difference to the average unprotected rent increase.
- 22 Overall the modelled result is an average protected increase of £2.64, just over 50p more than the average increase for 2003/04. This is equivalent to an average of 4.57% on current rents but does vary considerably from tenant to tenant. Some representative examples are given in Appendix HRA2.

Supporting People

- 23 New “Supporting People” arrangements 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. Those who would not otherwise qualify, but who were tenants when the scheme began, are partially subsidised from the HRA.
- 24 Under the contractual arrangements with the County Council, charges may only be increased as permitted by government guidelines. This would normally be expected to be in line with inflation. At the time of writing, the increase for next year had yet to be confirmed. Increases in line with inflation have been assumed for budget purposes but the recommendations made below have, of necessity, to be for increases at levels yet to be confirmed.
- 25 When the charges were first set, some limited leeway existed for a level of voids from under-occupation. When the position was assessed for this report, voids were running rather higher than hoped, but still just about allowed for a break even position as budgeted. It is therefore important to make every effort to minimise void levels on sheltered schemes otherwise the Council’s financial position is threatened.

Charges to Tenants for Common Services

- 26 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 former points system based rents did, to some extent, reflect such local circumstances. Unless corrective action is taken at some stage, 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.
- 27 Last year, it was recommended that the job of separating out service charges where appropriate should be deferred. Unfortunately, recent staff sickness has precluded the progression this year of what has turned out to be a task beset with difficulties. On the one hand, government guidelines encourage the creation of new service charges. On the other, they discourage charging for facilities that might be normally expected for a particular dwelling type. The classic example is not charging for lifts in high rise flats. Such distinctions are easier said than made. There are one or two other practical difficulties in addition.
- 28 The outcome of the exercise would be simply to identify the service charge element separately from the rent. Over the course of the next eight years the underlying rent would still be expected to progress towards the ODPM formula rent. Although eventually the service charges would indeed represent extra income above the formula rent level to cover the cost of service provision, such gains would not be immediate and thus not high priority. It is concluded under the circumstances that this job should again be deferred.

Charges to non-tenants

- 29 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.
- 30 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

- 31 Heating charges to tenants on communal boiler systems were last reviewed and increased last year. Again, this is an area where income levels appear to have been influenced by levels of voids. Accordingly, it is felt that a full year's performance of income against actual costs needs to be undertaken before firm recommendations for a further increase be recommended. The sums involved are relatively small, last year's increase being nominally equivalent to £3,300.

- 32 Garage rents were also increased last year from £5.00 to £6.00 per week, the second £1 increase in three years. The increase was based on comparison with nearby authorities. Officers have no identified reason yet to recommend a further increase this year.
- 33 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

- 34 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

- 35 The figures presented with this report demonstrate that a rent increase for 2004/2005 based on the ODPM's expected "3.96% plus or minus an eighth" should produce an average £2.64 per week and a level of income sufficient to increase the HRA capital programme to meet government expectations. The recommended increase is about 50p per week more on average than last year. Officers are not recommending any increase to current levels of service charge to tenants, except as needed for the "Supporting People" charges.
- 36 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. Confirmations 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 2004/2005 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 3.96% plus or minus one eighth of the resulting difference from the ODPM formula rent for 2004/2005 limited so that no tenant shall have an increase exceeding 3.3% plus £2,
 - Supporting People current weekly charges to tenants of £13.94 for warden services and £3.09 for Lifeline services, be increased from April 2004 in accordance with the contract with the Commissioning Body,
 - Protection be likewise increased against the "un-pooled" £8.38 element of the warden services charge for all those tenants at 31 March 2003 ineligible for grant assistance under "Supporting People" from April 2004;

- b) Do not increase garage rents or heating charges from April 2004

c) Defer consideration until 2005/2006 of new charges for common services at flats

Background Papers: Uttlesford DC Housing Strategy 2004/2008
ODPM HRA Determinations 2004/2005
ODPM HRA Subsidy Determinations 2004/2005