

Committee: Health and Housing
Date: 25 January 2005
Agenda Item No: 5
Title: HOUSING REVENUE ACCOUNT ESTIMATES 2005/2006
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Summary

- 1 This report sets out the draft estimates for the Housing Revenue Account (HRA) explaining the significant items and changes reflected in the figures. The rent levels for 2005/06 are determined in the context of the statutory requirements for rent restructuring and convergence ("Formula Rents").

Base Position

- 2 The HRA working balances at 1 April 2004 were maintained at their budgeted recommended minimum level of £500,000. However, accelerated spend on Decent Homes in 2003/2004 meant an additional revenue contribution to capital of £64,000 was required to keep the Major Repairs Account (MRA) balance at its budgeted level of £940,000.
- 3 Rental income for 2003/2004 was £40,000 less than estimated but repairs costs were down by £24,000. As the overall result of these and other minor variations, the year-end Housing Repairs Account balance of £312,000 was £73,000 less than estimated.

Major Developments

- 4 Taking rent rebates out of the HRA has removed the largest source of budget uncertainty on the revenue account. However, the capital scheme at Vicarage Mead depended for funding on the continuing flow of right-to-buy receipts. These have now considerably slowed down.
- 5 In practice this is not a major source of alarm. The HRA is now permitted to borrow if necessary, as long as the level of borrowing is prudent. With an underlying revenue contribution to capital of over £350,000, there would be more than enough leeway for the HRA to afford to borrow for the whole of the Vicarage Mead scheme. This does not appear to be necessary.
- 6 By running down the working balances on both the Housing Repairs Account and the Major Repairs Reserve, it currently still appears possible to avoid any borrowing in support of the existing capital programme. This is to be achieved by increasing the revenue contribution to capital for 2005/2006. It will of course be necessary to review the overall position again next year.

Revised Estimate 2004/05

- 7 The Housing Revenue Account's revised estimate 2004/05 for the direct costs of Management and Maintenance excluding internal charges is £2,858,670. This is an increase of just £10,740 from the original base budget. The major components of this variation are explained in the table below -

	£'000	£'000	£'000
Base Estimate 2004/2005			3,185.7
<u>Less</u> HRA Share of Corporate Costs		(205.0)	
<u>Less</u> Internal Charges		<u>(132.8)</u>	<u>(337.8)</u>
Adjusted Base Direct Costs			2,847.9
<u>Supervision and Management</u>			
Inflation			
<u>Plus</u> Cleaning Contract		6.4	
Other Variations			
<u>Less</u> Valuation Costs	(5.0)		
<u>Less</u> Property Services Staffing	(26.5)		
<u>Plus</u> Options Appraisal	18.0		
<u>Plus</u> Housing Services Agency Staffing	10.8		
<u>Plus</u> New Enabling Post	7.4		
<u>Less</u> All other variations (net)	<u>(0.3)</u>	4.4	
Total Variation			10.8
Revised Estimate 2004/2005 - Direct Costs			2,858.7
<u>Plus</u> HRA Share of Corporate Costs		205.0	
Internal Charges (net)		<u>164.1</u>	<u>369.1</u>
Revised Estimate 2004/2005			<u>3,227.8</u>

Estimates 2005/2006

- 8 The Housing Revenue Accounts Estimate 2005/2006 for the direct costs of Management and Maintenance excluding internal charges is £2,873,740. This is an increase of £25,810 against the original 2004/2005 base budget. The major components of this variation are explained in the table below.

	£'000	£'000	£'000
Base Direct Costs (as Revised)			2,847.9
<u>Supervision and Management</u>			
<u>Plus</u> Inflation			
April 2004 Pay Award	27.0		
Cleaning Contract	18.0		
Other Inflation	<u>16.0</u>	61.0	
Other Variations			
<u>Less</u> Options Appraisal	(27.0)		
<u>Plus</u> New Enabling Post	30.3		
<u>Less</u> Sewerage Charges	(11.0)		
<u>Plus</u> Other Variations (net)	<u>3.9</u>	<u>(3.8)</u>	
			57.2
<u>Repairs and Maintenance</u>			
Housing Repairs Account			
<u>Plus</u> Legionella Management	14.4		
<u>Plus</u> Response Repairs	22.2		
<u>Less</u> Pre-Painting Works	(14.9)		
<u>Less</u> External Decoration	<u>(53.1)</u>		<u>(31.4)</u>
Total Variation			25.8
Base Estimate 2005/2006 - Direct Costs			2,873.7
<u>Plus</u> HRA Share of Corporate Costs		211.0	
Internal Charges (net)		<u>118.4</u>	<u>329.4</u>
Base Estimate 2005/2006			<u><u>3,203.1</u></u>

Impact of ODPM Subsidy Rules

- 9 The ODPM issued its final rent guidelines and subsidy determinations for 2005/06 on 17 December 2004. The guideline rent for 2005/06 is set at £61.02, an increase of £3.06 per week over last year. The limit rent is increased by £2.72 to £63.83. Both amounts are based on a 4.03% increase on last year's recalculated amounts, plus or minus one seventh of the resulting difference from the average formula rent for 2005/06 of £65.36.
- 10 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. Rent rebates are no longer accounted for in the HRA and, as from April 2004, any calculated surpluses must now be paid over to the First Secretary of State.
- 11 The surplus to be paid over for will be £3,764,000 for 2004/2005 and £3,815,000 etc for 2005/2006. The elements of this calculation are shown below.

<u>Elements of the Calculation</u>	2003/2004	2004/2005	2005/2006
	£'000	£'000	£'000
Management and Maintenance	2,749	3,112	3,389
Anti-social Behaviour Strategy	0	1	0
Major Repairs Allowance (MRA)	1,658	1,781	1,800
Rent (based on guidelines)	(8,487)	(8,704)	(9,061)
Interest Receipts	(11)	(2)	(1)
Capital Charges	12	48	58
Sub-total – fixed by ODPM	(4,079)	(3,764)	(3,815)
Rent Rebate element	4,042	N/A	N/A
Total notional deficit / (surplus)	(37)	(3,764)	(3,815)

- 12 It will be noted that, for next year, the calculation no longer includes the nominal amount of £1,000 towards the cost of preparing an anti-social behaviour strategy. 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

- 13 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 seven 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.

- 14 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 would make it increasingly difficult to pay the calculated HRA surplus to the Government.
- 15 Any real options for rent increases are now very constrained. An average increase much below the "4.03% plus or minus a seventh" 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. A higher or lower percentage rent increase is therefore not recommended.
- 16 The ODPM continues to expect that no tenant should be faced with a rent increase exceeding inflation plus 0.5% plus £2. The relevant RPI figure to be used for 2005/06 is 3.1%. The higher the rent increase percentage the more likely it is that individual rent increases would be limited to the 3.6% plus £2 maximum. At "4.03% plus or minus a seventh", 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.
- 17 Overall the modelled result is an average protected increase of £2.80, about 16p more than the average increase for 2004/05. This is equivalent to an average of 4.64% on current rents but does vary considerably from tenant to tenant. Some representative examples are given in Appendix HRA2.

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. Those who would not otherwise qualify, but who were tenants when the scheme began, are partially subsidised from the HRA.
- 19 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 again 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.

Charges to Tenants for Common Services

- 20 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.
- 21 Last year, it was recommended that the job of separating out service charges where appropriate should be deferred. Unfortunately, staffing issues have again precluded the progression this year of this complex and difficult task. It is regretted that under the circumstances this job should again be deferred.

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 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.
- 23 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

- 24 Heating charges to tenants on communal boiler systems were last reviewed and increased two years ago. 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.
- 25 Garage rents were also increased last year from £6.00 to £7.00 per week, the second £1 increase in two years. The increase was based on the wishes of the Tenants Panels. A small number of tenants relinquished their garage as a result. Officers have no reason to recommend an increase this year.
- 26 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

- 27 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

- 28 The figures presented with this report demonstrate that a rent increase for 2004/2005 based on the ODPM's expected "4.03% plus or minus a seventh" should produce an average £2.80 per week and a level of income sufficient to support the HRA capital programme. The recommended increase is about 16p 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.
- 29 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 2005/2006 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 4.03% plus or minus one eighth of the resulting difference from the ODPM formula rent for 2005/2006 limited so that no tenant shall have an increase exceeding 3.6% plus £2.
 - Supporting People current weekly charges to tenants be increased from April 2005 in accordance with the contract with the Commissioning Body,
 - Protection be likewise increased against the "un-pooled" element of the warden services charge for all those tenants at 31 March 2003 ineligible for grant assistance under "Supporting People" from April 2005;
- b) Do not increase garage rents or heating charges from April 2005
- c) Defer consideration again of new charges for common services at flats

Background Papers:

Uttlesford DC Housing Strategy
ODPM HRA & HRA Subsidy Determinations 2005/2006

Note

The recommendations in paragraph 36a and 36c of the above report were agreed at the Council Meeting on 10 February 2004. In considering the recommendation in paragraph 36b it was resolved that, from April 2004, garage rents be increased to a standard rate of £7.00 a week.