

Agenda Item No: 4 (HRA)

**Title: Housing Revenue Account Estimates
and Rent Setting 2001/02**

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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 level for 2001/02, in the context of the new statutory financial framework for housing starting in April 2001.

Base Position

- 7 The HRA working balances at 1 April 2000 at £453,952 were £46,048 below their recommended minimum level of £500,000. A number of variations contributed to this position, one of which arose from increased expenditure on unprogrammed repairs. This was not altogether unexpected.
- 8 When preparing the Revised Estimates for 1999/2000, it was identified that direct payments on repairs were running at about £300,000 more than for the corresponding period in the previous year. It was anticipated that any overspending not offset by slippage in the major repairs programme would be met in the first instance by any remaining balance on the Repairs Account, otherwise from the HRA working balances. In the event, net expenditure on the Repairs Account was £122,815 above the Revised Estimate.
- 9 In practice, the Repairs Account balances were fully used leaving a nil balance carried forward rather than the estimated £141,780. However, this permitted the HRA 's contribution to the Repairs Account to be reduced by £18,965. Adding this figure back to the £46,048 reduction in the HRA working balances shows that there were reasons for the overall shortfall on the HRA, other than repairs, totalling £65,013.
- 10 This variation was more than explained by the fact that rental income was overestimated by about £85,000 for Revised 1999/2000 because of misleading information produced by the Housing IT system. This is not expected to happen again. The net effect of all other variations, overall reductions against budget of about £20,000, was small by comparison.

Revised Estimates 2000/2001

- 11 The overall reduction of £187,828 in the balances brought forward has had significant repercussions for the HRA in 2000/2001. When rents were set in February last year, a managed temporary reduction of £94,070 to the Planned Maintenance Programme was already built into the HRA budget to avoid a rent increase above the DETR guideline. At that stage DETR consultation was

clearly suggesting that the new financial framework operative from 1 April 2001 would give the HRA more revenue spending power from 2001/2002 onwards.

- 12 The significant increase in unprogrammed repairs apparent in 1999/2000 has continued into 2000/01. When the Housing Strategy was reviewed in the summer, this new trend was built into the projections produced with an additional £215,000 a year being allowed. Adaptation works for the disabled, previously in the Planned Maintenance Programme were transferred to the HRA Capital Programme to help address the shortfall in the HRA working balance and to assist in achieving the managed reduction. Since then and despite efforts to control the situation, the latest assessment by Property Services suggests that an additional £31,000 is still required overall. This has been built into the Revised estimates.
- 13 There are a number of other sizeable variations to be seen in the detailed figures. Most of these arise from a higher number of right-to-buy sales than were anticipated when budgets were set in February 2000. At that time the number of live applications from tenants to purchase their homes had started to fall quite markedly. In consequence, sales were also projected to tail off early in 2000. As it turns out, the number of sales year on year remained steady until October 2000 although the number of live applications continued to reduce steadily. Only since then has a reduction in sales started to become really noticeable. There has been a time-lag effect of about one year.
- 14 The result is reflected in lower rent income for 2000/2001, offset to some extent by correspondingly lower expenditure on rent rebates. This reduction in rent rebates has itself resulted in a higher negative subsidy transfer to the General Fund. The overall deficit arising from these effects has in turn been counterbalanced by increased interest gained on higher than expected capital receipts. Taken together with a very small variation on Supervision and Management costs, the variations overall appear quite neutral.
- 15 The general picture presented by the Revised Estimates is that, if it were not for the shortfall of £188,000 in the balances brought forward from 1999/2000, the HRA would have met its budgetary targets. However, with a large managed reduction already assumed, it has not proved possible to find the additional scope to counteract the shortfall inherited from the previous year. Rather than allowing the working balances to be further eroded to not much more than £300,000, the detailed figures show that additional Planned Maintenance Programme items, totalling £270,000, may be transferred to the HRA Capital Programme in 2000/2001. This will permit the HRA working balance to be restored to its prudent target level of £500,000 by 31 March 2001 – with an additional £85,580 to carry forward to 2001/2002.
- 16 On the two following pages will be found a summary of the major variances in the Management and Maintenance estimates for Revised 2000/2001 and the Base Budget 2001/2002. The detailed budgets appended have been prepared at estimated outturn prices, including 3% allowed for April 2001 pay awards. Both years show reductions compared with the original base estimates as Planned Maintenance Programme items have now been transferred to Capital.

Revised Estimate 2000/01

- 17 The Housing Revenue Account's revised estimate 2000/01 for the direct costs of Management and Maintenance excluding internal charges is £2,954,870. This is a decrease of £227,290. The major components of this variation are emphasised in the table below:-

	£'000	£'000	£'000
Base Estimate 2000/2001			3,774.7
<u>Less</u> Service Strategy and Regulation		230.0	
<u>Less</u> Internal Charges		362.6	592.6
Base Direct Costs			3,182.1
<u>Supervision and Management</u>			
Best Value			
<u>Plus</u> Tenant Satisfaction Survey	8.6		
External Audit of Subsidy Returns (New Code of Practice requirement)	10.5		
Stock Options Appraisal	<u>10.0</u>	29.1	
Inflation			
2000 Pay Award Adjustment		4.8	
Other Unavoidable Variations			
<u>Less</u> Increased Income – Right to buy	(16.2)		
Other Variations (net)	<u>(11.6)</u>	(27.8)	
			6.1
<u>Repairs and Maintenance</u>			
Response Maintenance			
<u>Plus</u> Increase as in Housing Strategy	215.0		
Additionally identified requirement	<u>30.7</u>	245.7	
Planned Maintenance Programme			
<u>Less</u> Reduction as in Housing Strategy	(209)		
Further amount transferred from Revenue to Capital Programme	<u>(270)</u>	(479.0)	
			(233.3)
Total Variation			(227.2)
Revised Estimate 2000/01 - Direct Costs			2,954.9
<u>Plus</u> HRA Share of Corporate Costs		188.2	
Internal Charges (net)		333.2	521.4
			3,476.3

Estimates 2001/2002

- 18 The Housing Revenue Accounts Estimate 2001/2002 for the direct costs of Management and Maintenance excluding internal charges is £2,769,930. This is a decrease of £412,230 against the 2000/2001 original estimate. The major components of this variation are emphasised in the table below.

	£'000	£'000	£'000
Base Estimate 2000/01			3,774.7
<u>Less</u> Service Strategy and Regulation		230.0	
<u>Less</u> Internal Charges		362.6	592.6
Base Direct Costs			3,182.1
<u>Supervision and Management</u>			
<u>Plus</u> Inflation			
April 2000 Pay Award Adjustment	4.8		
April 2001 Pay Award	30.5		
Other Inflation	1.3	36.6	
<u>Plus</u> Other Unavoidable Variations			
Other Staffing Costs	10.4		
External Audit of Subsidy Returns	10.5		
Other Variations (net)	(3.3)	17.6	
			54.2
<u>Repairs and Maintenance</u>			
<u>Plus</u> Response Maintenance			
Increase as in Housing Strategy	215.0		
Minor variations	(0.8)		
Reduction needed at guideline increase	(205.0)	9.2	
<u>Less</u> Planned Maintenance Programme			
Stock Condition Survey – one off 2000/01	(25.0)		
Asbestos Management – new item	40.0		
Reduction in Redecoration Programme	(66.6)		
Transferred to Capital Programme	(424.0)	(475.6)	
			(466.4)
Total Variation			(412.2)
Base Estimate 2001/02 - Direct Costs			2,769.9
<u>Plus</u> HRA Share of Corporate Costs		219.5	
Internal Charges (net)		332.1	551.6
Base Estimate 2001/2002			3,321.5

Impact of DETR Subsidy Rules

- 19 The DETR issued its final rent guidelines and subsidy determinations for 2001/02 on 14 December 2000. The guideline rent increase included in the subsidy calculation for Uttlesford tenants is an average increase of £2.08 per week, the maximum increase for any local authority. This is equivalent to an increase of 4.05% on the current assessed average rent of £51.35. This figure has been used for calculating the Housing Subsidy implications, and also as the base position for preparing the attached detailed estimates for 2001/2002.
- 20 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 must be transferred to the Council's General Fund. This has historically been the case for this Council for a number of years.
- 21 Following a long consultation exercise, the DETR has now introduced major changes to take effect from 1 April 2001. The largest of these changes is the introduction of the Major Repairs Allowance (MRA). This has been established to enable funds to be targeted for HRA capital purposes which previously paid for rent rebates or were transferred to the General Fund.
- 22 Another major change is to the method used to calculate the HRA's assumed share of interest on capital receipts for subsidy purposes. No interest will in future be allowed to the HRA on any capital receipts received under the right-to-buy scheme.
- 23 The full subsidy calculations for 2000/2001 revised and 2001/2002 are compared below. They show an estimated transfer to the General Fund of £1,698,000 in the current year, 2000/2001. Following the changed rules with the introduction of the MRA, there is expected to be a small element of Government subsidy in 2001/2002, about £39,000.

<u>Elements of the Calculation</u>	2000/2001	2001/2002
	£'000	£'000
Management and Maintenance	2,771	2,688
Major Repairs Allowance (MRA)	0	1,659
Rent (based on guidelines)	(7,931)	(8,061)
Interest Receipts	(227)	(19)
Other Elements	64	65
Sub-total – fixed by DETR	(5,311)	(3,668)
Rent Rebates (as estimates)	3,597	3,685
Allowance for backdating etc	22	22
Total notional deficit / (surplus)	(1,692)	39

- 24 It must be emphasised that the cost of rent rebates is very difficult to estimate accurately. The detailed estimates have been based on rebates at a level of 44.47% of rents, the position assessed in December 2000. Even under the new arrangements, the HRA will continue to be largely unaffected by the estimated rebate percentage. It is Housing Subsidy, once it starts to be received again, which will in future go up or down with any change in rent rebate levels.

New Financial Framework

- 25 The main changes to the notionally based subsidy calculations mirror the real changes to HRA under the new financial framework. The amount of MRA specified for the subsidy calculation, £1,659,480, is the real figure which must in future be set aside from revenue for funding HRA capital expenditure. This figure is very similar to the previous statutory transfer to the General Fund.
- 26 The other major change is to the HRA's entitlement to interest earnings on capital receipts. The DETR has recognised the anomalous position in which debt-free authorities have found themselves. Although having the unfettered legal freedom to spend capital receipts they have nevertheless been obliged to transfer interest to the HRA as if 75% of the receipts remained unspent.
- 27 From 1 April 2001 the calculation has been rebased to the position which applied when Uttlesford became debt-free on 1 April 1996. The result, in base budget terms, is about £400,000 less interest transferred to the benefit of the HRA in future. From the point of view of the General Fund, this will help to offset the loss of the transfer from the HRA. From the point of view of the HRA it represents £400,000 which has to be found from elsewhere.
- 28 In theory, this amount and more can be found by transferring items from the Planned Maintenance Programme to the HRA Capital Programme, where it can be funded from the newly established MRA. There is, however, one major problem with this strategy - in practice, funds allocated to pay for planned maintenance have for the past two years been diverted to pay for the higher level of unprogrammed repairs. This will not be possible in future.
- 29 The way the new MRA works is truly very similar to the previous General Fund transfer arrangement. As far as the HRA is concerned, capital works only can be funded from the MRA. There are firm restrictions on what may be regarded as capital expenditure and the detailed figures have been prepared accordingly. Any increase in revenue expenditure, such as for response repairs, small scale works and redecorations, must be met from rental income. Rental income is still firmly controlled by the DETR's guidelines, and the amount and use of the MRA by the DETR's determinations.
- 30 No attempt has been made on this occasion to present the HRA using the new layout elements expected under the new financial framework. The changes are largely presentational but more complex, and would probably confuse rather than enlighten during the transition.

Increased Cost of Unprogrammed Repairs

- 31 There is no single reason which explains all of the increased cost of repairs. Investigations have however established that there has been a significant change to the pattern of works carried out to void properties prior to reletting. The opportunity has lately been taken to improve the kitchens and bathrooms of individual properties while they are empty, work which obviously causes severe disruption in an occupied property. In addition work to the trees and external environment of void properties is also more extensive than was usual in previous years.
- 32 Boiler servicing has now become more onerous following changes in Health and Safety obligations. Consequently costs are higher. One-off boiler replacements are also featuring more now than before. Further information on the forces driving recent repair trends and cost increases will be available orally from officers at the meeting, if required.
- 33 Because the revenue cost of repairs at its increased level was not allowed for in the base budget, the work has been funded during 2000/2001 only at the expense of the programme of planned maintenance. As pointed out above, this will not be possible in future. A rent increase at the guideline will cover all other identified variations but cannot cover in addition the £215,000 increase in response repairs projected in the Housing Strategy. For this reason it has been necessary to reduce the estimate by £205,000 from this projected level in 2001/2002 in order to allow a rent increase no greater than the DETR guideline.
- 34 This budget position may not be sustainable. It may not be possible to improve, or even maintain current standards if the budget is reduced to its original 2000/2001 level. However, the only readily identifiable source of extra funding is by increasing rents.

Garage Rents

- 35 Garage rents were increased last year from £3.80 to £4.00 per week. The Tenants Panels expressed the view that rents for garages were still too low and officers have since carried out an exercise to obtain comparative information from seven neighbouring local authorities.
- 36 Uttlesford's garage rent was the lowest in the sample which mostly ranged around the £4.50 level. The average was £4.82 with one council charging £5.92 and the highest £6.49. Although VAT was applied on top of the basic rent, it was evidently not normal practice elsewhere to otherwise charge higher rents to non-tenants.
- 37 Included in the detailed estimates for 2001/02 is an amount of £40,000 for asbestos management work needed to comply with Health and Safety requirements. This has been identified as a particular problem for many of the Council's garages. There is clearly scope for a further increase to

Uttlesford's garage rents this year. Increasing the rent by 80p to £4.80 per week should produce additional income of about £22,500. Increasing the rent by £1.00 to £5.00 per week should produce about £28,000.

Miscellaneous Charges

- 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.
- 40 Heating charges to tenants on communal boiler systems were reviewed and reduced last year. Because of the Council's contractual arrangements, domestic fuel prices have been relatively stable since then, but should be expected to increase when current contracts expire. Accordingly, no change is indicated for 2001/2002 but the position must be reviewed again next year.

Changes to Internal Charges

- 41 This year, fundamental changes have been made to the way in which a number of internal charges are made, in particular those for central management, internal audit and personnel services. These were previously included in summary under the heading Service Strategy and Regulation. They are now required to be charged directly to services. This is a requirement of a new statutory accounting code of practice designed to produce better comparative information for best value benchmarking purposes.
- 42 This change has two immediate major consequences. Firstly, it makes direct comparison impossible with the detailed figures for the original budget and previous year. Secondly, it means that many other recharges for support services also include the knock-on effects of similar changes in other Committees.
- 43 The HRA, as a special ringfenced account, must however still bear its full share of all corporate core costs, including those not already charged directly to each service. Unfortunately, it has been difficult to quantify the full impact of all changes to the corporate core some weeks in advance of the special meeting of Policy and Resources Committee on 8 February 2001. For the purposes of preparing the figures for this report it has been assumed that the overall effect of these changes to internal charges will be neutral. In reality, it is expected that the HRA may receive some small financial benefit from savings identified in corporate core services.

- 44 It is recommended that no account is taken, at this stage, of any such relatively small gain. In practice, it is likely to be needed to fund additional expenses above the budgeted level for both the best value initiatives considered elsewhere on the agenda and for the stock valuation required under the new financial framework. This latter exercise is complicated locally by the wide variety of dwellings which do not easily fall into a small number of standard types. The position will be more fully quantified by the time the HRA estimates are finally approved by Policy and Resources Committee.

Options for Dwelling Rent Increases

- 45 An increase below the DETR guideline of an average £2.08 per week, 4.05%, is not advisable because it is most probably not sustainable for two significant reasons. Firstly, it is doubtful whether it is realistic for repairs costs to be kept down, for a prolonged period, to a level £205,000 below the Housing Strategy projection. Secondly, it should be remembered that expenditure, even at that reduced level, would still be supported by the £85,580 additional working balance to be carried forward from 2000/2001, which can only be used once.
- 46 Any increase above the DETR guideline will obviously make more resources available for repairs, but a sustainable rent level, even to maintain repairs at this reduced level, will not be achieved until at least £85,580 additional income is achieved. This would require an average increase of £2.62 per week, 54 pence per week above the guideline. This would be equivalent to an increase of 5.1%. Failure to increase rents to at least this level would result in the need to further reduce repairs or increase rents by a higher amount in 2002/2003 just to replace balances relied on in 2001/2002.
- 47 If £28,000 were to be raised by increasing garage rents to £5.00 per week, an additional £177,000 would still be needed to re-instate the repairs budget at the Housing Strategy level. In theory, this should represent a rent increase of £3.21 per week. However, at this level the rent increase would be above the level at which the DETR would start to limit entitlement to subsidy, deeming the increase to be excessive. For this reason, no increase above £3.00 per week is recommended.
- 48 Such an increase of £3.00 per week would be equivalent to 5.8% and would produce about £145,000. With an additional £28,000 from garage rents, an additional £173,000 could be added to the repairs budget. The remaining shortfall from the Housing Strategy would be just £32,000, giving a more realistically sustainable repairs position.

Feedback from Tenants Panels

- 49 A combined meeting of the Tenants Panels is scheduled for the evening of 18 January 2001, where the range of options for rent setting, as outlined above, will be considered. A report on the results of this consultation will be given orally when this report is presented.

Conclusions

- 50 The figures presented with this report demonstrate that the rent increase for 2001/2002 can only be kept at the DETR guideline of an average £2.08 per week by reducing the planned level of expenditure on unprogrammed repairs by £205,000, back towards the level of the original budget for 2000/2001, before the Housing Strategy was last reviewed. Attempting to constrain repairs expenditure to this extent may in reality be difficult to achieve and unsustainable.
- 51 The Housing Sub-Committee is asked to decide, with the benefit of feedback from the Tenants Panels, to what extent it wishes to make more resources available for repairs by increasing garage rents and/or by increasing dwelling rents above the DETR guideline.

RECOMMENDED that the Sub-Committee, to enable these estimates to proceed for further consideration by the Community Services Committee and approval by the Policy And Resources Committee :

- a) Accept the estimates as presented on the basis of an average weekly rent increase of £2.08 in line with the DETR guideline, equivalent to 4.05%.
- b) Decide to what extent it wishes to make more resources available for repairs by increasing garage rents from the current £4.00, on the basis that an additional £1 per week should produce £28,000.
- c) Decide to what extent it wishes to make more resources available for repairs by increasing dwelling rents above the DETR guideline increase of £2.08 per week, on the basis that each additional 10p per week should produce about £15,700.
- d) In order to set dwelling rents for 2001/2002, take the total rent increase decided as a percentage of the current average weekly rent of £51.35, and apply the same percentage increase to the current rent multiplier of 2.042.

Background Papers: Uttlesford DC Housing Strategy 2001/2005
 DETR HRA Determinations 2001/2002
 DETR HRA Subsidy Determinations 2001/2002