

CABINET
3 FEBRUARY 2004

ITEM NO.

HOUSING REVENUE ACCOUNT – REVENUE BUDGET 2004/05

Responsible Cabinet Member(s) - Councillor Bill Dixon, Housing Portfolio

Responsible Director(s) - Cliff Brown, Director of Community Services

Purpose of Report

1. To review the draft revenue budget, rent levels and service charges for the Council's Housing Revenue Account (HRA) for the financial year 2004/05.

Information and Analysis

2. The draft HRA revenue budget for 2004/05 is shown at **Appendix 1**. The principal factors and key elements taken into account in the draft budget are:-
 - (a) The impact of the Government's Rent Restructuring Policy.
 - (b) The effect of changes to the HRA Subsidy System.
 - (c) A review of garage rents and service charges.
 - (d) The programme of repairs and maintenance detailed in the Housing Business Plan.

Rent Restructuring

3. The main objective of the Government's policy on rent restructuring is that rents should be fair and affordable for tenants in the social rented sector. The policy sets out a common basis on which all rents in the social sector should be set. This means that the rent for a house or flat (known as the formula rent) is linked to its capital value, size, location, condition and local earnings so that tenants can make a proper choice between how much they pay and the size and quality of the property they live in. Rents and service charges have traditionally been considerably lower for local authority housing than for housing associations and these proposals are intended through time to create greater standardisation of charges throughout the social housing sector.
4. The impact on tenants of the continuing implementation of the rent restructuring policy and increases to existing service charges have been assessed for all properties to ensure that the impact on individual property rent levels is limited. The increase in weekly rents is notified to local authorities by the Government through the Housing Subsidy determination and the effect of the proposed increase for 2004/05 is that average weekly rents increase by 3.61% (or £1.55) from £42.99 in 2003/04 to £44.48. The financial impact of the proposed increase in charges is included in the draft budget shown at **Appendix 1**.

Housing Subsidy

5. A number of changes to Housing Subsidy are taking place and are effective for 2004/05. A description of the changes and the financial impact is shown in table 1 below.

Table 1: Housing Subsidy Changes

Description	DBC gain/(loss) £000
<p>1. Rent Rebates</p> <ul style="list-style-type: none"> ➤ Responsibility for rent rebates transfers from the Office of the Deputy Prime Minister (ODPM) to the Department for Work and Pensions (DWP) from 1st April 2004. This means that the cost of rent rebates moves from being charged to the HRA to the General Fund (GF) from the same date. ➤ Rent rebates are 100% grant funded so there will be no net cost to the GF. ➤ However, the HRA currently receives through HRA subsidy an incentive allowance equivalent to 1.7% of rebates paid to partly offset deductions made from qualifying expenditure in respect of incentive areas (overpayments and backdating) – this incentive will be lost in the future. 	(160)
<p>2. Minimum Revenue Provision (MRP)</p> <ul style="list-style-type: none"> ➤ MRP (also known as set-aside) is an amount equivalent to 2% of HRA outstanding debt and is used to repay debt principal. This amount is charged to the HRA. ➤ In addition, authorities receive an MRP allowance through HRA subsidy to offset the costs charged to the HRA. ➤ For DBC, the MRP amount received through HRA subsidy is higher than the MRP charged to the HRA as they are calculated using different bases. ➤ MRP is abolished from April 2004, as is the subsidy receivable to offset it. 	(20)
<p>3. Charges For Capital</p> <ul style="list-style-type: none"> ➤ A charge is made to the HRA each year to reflect the interest chargeable on the level of HRA debt. ➤ An allowance is also received through HRA subsidy to offset the amount charged to the HRA. ➤ Currently DBC receive £100k more through HRA subsidy than the charge made to the HRA as the bases for calculating the relevant amounts are different. ➤ From April 2004, these bases will change to the extent that the charge to the HRA will be the equivalent of the amount received through HRA subsidy. 	(100)

4. Management Allowance	(70)
Maintenance Allowance	750
<ul style="list-style-type: none"> ➤ Authorities receive Management and Maintenance (M&M) Allowances through HRA subsidy, based on an amount per dwelling. ➤ These allocations represent the perceived need of the authority to spend on the management and maintenance of its housing stock and are based on lots of different factors. ➤ They do not represent what each authority currently spend on management and maintenance and therefore do not include the impact of real increases in costs e.g. insurances, support service costs, additional staffing etc. ➤ from April 2004, the ODPM have changed the bases for M&M Allowances to take account of factors such as crime, stock types, geography and labour costs. 	
Overall Gain	400

Review of Service Charges

6. Public Sector Housing provision needs to be continually reviewed to reflect changing circumstances and conditions in the housing market not only to meet current tenant expectations but also ensure that accommodation remains attractive in an increasingly competitive market place. To this end, we are regularly upgrading the quality of communal areas, for instance, replacing plastic tiles with carpets and revitalising entrances, etc to block of flats. Further, from 1 April 2004 a new Extra Care¹ Service is being provided, following conversion of Dalkeith House, the first of 3 such planned schemes. This section, therefore, comprises a review of current practise for establishing service charges in block of flats, warden controlled housing and for new Extra Care accommodation schemes.
7. At present, Warden, Building Cleaning and Ground Maintenance services are provided by the Council as landlord and tenants pay a service charge along with their rent for these services. Table 2 below shows that these arrangements are considerably subsidised, with the balance of costs being met by other Council tenants through current rent pooling arrangements.²

Table 2: Service Charges 2004/05

	Total Cost £	Total Income £	Net Cost £
Warden Services	688,110	(452,600)	235,510
Building Cleaning – Comprehensive Sheltered Schemes	71,000	(8,800)	62,200
Building Cleaning – Flats	21,900	(10,600)	11,300
Grounds Maintenance – All	342,600	(314,700)	27,900
Total	1,123,610	(786,700)	336,910

¹ The Extra Care Service comprises a wide range of communal facilities, an on site team who work a 24 hour rota, daily lunch and design features to maximise independence.

² This means that rents do not fully reflect costs associated with individual tenancies. Rent income is pooled against all expenditure within the Housing Revenue Account and rents are set accordingly to cover expenditure and maintain a reasonable surplus.

8. It is clear from Table 2 that a significant amount of pooled rental income from the Housing Revenue Account is used to support service charges in warden controlled housing schemes and blocks of flats. While this practice is not adopted by housing associations, who charge tenants the full costs of services provided in individual schemes, given the principles of the Government's Rent Restructuring Policy, to align rent levels across the social sector, it is appropriate to also consider aligning service and other charges.
9. Whilst it is difficult to make an exact comparison with housing associations, the service charges for a typical inclusive housing association Extra Care scheme is £25 to £26 per week (excluding meals) compared to the current comprehensive Sheltered Housing Scheme weekly charges of £6.04p for Warden, Building Cleaning and Ground Maintenance Services. If we were to fully recover the current net costs of £297,710 for the existing Warden Service and Building Cleaning Service an additional weekly charge of £5.74 and £1.53 respectively would be needed for sheltered schemes with communal facilities. Whilst Housing Benefit would cover the additional cleaning costs, the additional warden charges would need to be financed from Supporting People Grant which is a cash limited budget with other pressing demands. Therefore some of the additional weekly charge would need to be paid directly by all tenants. The Mobile Warden Service is self-financing and is currently priced at a competitive rate.
10. We also need to review how we finance the additional services that support new Extra Care Schemes, which will have considerably more communal facilities to be cleaned and maintained. Dalkeith House, our first Sheltered Housing conversion, is due for occupation as an Extra Care scheme in March 2004. To enhance the new accommodation standards, following consultation with existing tenants, it is proposed that we provide a daily two course, fresh mid-day meal as part of the tenancy agreement, for which some of the cost would be covered by Housing Benefits. All new tenancies would include this provision and existing tenants will be encouraged to sign a revised tenancy agreement to also receive the service. The cost of these freshly cooked meals will be £26.25 per week, which after deducting Housing Benefit where applicable, would leave tenants with £12.95 to pay. This compares to a current frozen meal service of £3 per single course meal which is not eligible for Housing Benefit.
11. For blocks of flats, it can be seen from Table 2, that there is a current shortfall in income of £11,300 pa for Building Cleaning due to increasing standards. To recover the full cost of this service directly from the tenants concerned would mean a weekly increase from 26p to 54p per week for 775 tenants. These costs would be covered by Housing Benefits for anyone currently eligible. There is also a shortfall in income for Grounds Maintenance of £27,900 pa and charges would need to increase from £1.03 to £1.53 to recover the shortfall from all residents in Sheltered Housing and Blocks of Flats. These costs are also eligible to be covered by Housing Benefit.

Charging Options for Services

12. In reviewing current charging mechanisms, the alternative options available are:-

Option 1 – Maintain separate charging arrangements for different categories of accommodation comprising fully comprehensive Sheltered Housing, Good Neighbour Warden Schemes with communal facilities, blocks of flats and a new category of Extra Care Sheltered Housing. Either the full cost or a set percentage of cost for the Warden Service, Building Cleaning and Ground Maintenance work to be recovered.

Option 2 – Charge separately for each individual scheme based on the actual costs of services provided, recovering either the full cost or a set percentage of cost for the Warden Service, Building Cleaning and Ground Maintenance work.

13. With respect to Option 2, this would mean that residents in schemes where a considerable amount of work had been undertaken, such as Dalkeith House, would be charged considerably more than residents in schemes where improvement has not yet taken place. To recover the full costs for Dalkeith House next year the Warden Service charge would need to increase from £4.50 to £10.24 per week and the cleaning charges would need to increase from 51p to £8.26. These charges would, however, be eligible for Housing Benefit and some Supporting People Grant. It is difficult to anticipate the number of residents in Dalkeith House who will be eligible for assistance as there are a number of empty flats whilst the remodelling takes place. However, the average eligibility rate in Darlington for Sheltered Housing schemes is 74%.

14. Best Practice would suggest that a move towards recovering the full costs of the service directly from service users is most appropriate.

Garage Rents and Service Charges

15. Proposals for garage rents and service charges based on the review of charging options are set out in Table 3 overleaf. The draft budget at **Appendix 1** includes the financial effect of the proposed increases. Essentially the proposals for service charges provide for achieving full recovery of costs from tenants of the schemes concerned over a five year period, based on average costs for all comprehensive Sheltered Housing Scheme and Blocks of Flats. As the Extra Care accommodation is a new provision, the proposal allows for the cost of meals to be fully recovered from the outset with other service charges based on the actual cost of the individual scheme, achieving full recovery of costs from tenants over a five year period.

Table 3: Garage Rents and Service Charges

Description	Current Weekly Charge	Proposed Weekly Charge
	£	£
Garage Rents	4.00	4.15
Building Cleaning - Flats	0.26	0.32
Building Cleaning - Warden Schemes	0.51	0.82
Building Cleaning – Extra Care Schemes (1)	0.51	2.06
Grounds Maintenance – General Housing	1.03	1.06
Grounds Maintenance – Warden Schemes	1.03	1.13
Grounds Maintenance – Blocks of Flats	1.03	1.13
Heating	4.61	4.73
Furnishings and Fittings – Comprehensive Schemes	1.20	1.23
Furnishings and Fittings – Good Neighbour Schemes	0.54	0.55
Mobile Warden/Lifeline Telephone	3.40	3.55
Mobile Warden/Hardwired System	3.40	3.55
Resident Warden (2)	4.50	5.65
Pavement Crossings and Hardstandings	2.56	2.62
Mid-day Meal – Extra Care (3)	N/A	26.25

Notes

- (1) The increased cost of cleaning is that established for Dalkeith House, the first Extra Care Scheme to come on line and this reflects a significantly higher standard of cleaning than for current Sheltered Housing.
 - (2) The Supporting People Grant Settlement has not yet been notified to the Council, so at present it is not possible to confirm whether full relief will be given.
 - (3) In order not to further add to subsidy from rent pooling, the new service for a daily hot meal would have to be fully paid for by tenants from the outset. This charge is competitive in comparison to current meals on wheels provision.
16. Under Part 2 of the Local Government Act 2003 it is the responsibility of the Director of Corporate Services as the Council's Responsible Financial Officer to inform Members of the robustness of the proposed estimates and the appropriateness of the level of projected Housing Revenue Account balances.
 17. The Director of Corporate Services has confirmed that the estimates have been prepared on the most up to date information available and within the guidance he has set out. For 2004/05, he is satisfied that these represent a fair view of the Council's ongoing plans and commitments, although Members will need to appreciate that some budgets more than others are subject to volatility and will, therefore, continue to be monitored closely and remedial action taken when appropriate.

18. He is also satisfied that the Housing Revenue Account has improved revenue balances and that the levels projected at 31 March 2005 (£0.7M) are adequate particularly given the Council's track record in budget management and taking remedial action when necessary to correct variances from approved financial plans.

Legal Implications

19. This report has been considered by the Borough Solicitor for legal implications in accordance with the Council's approved procedures. There are no issues which the Borough Solicitor considers need to be brought to the specific attention of Members, other than those highlighted in the report.

Section 17 of the Crime and Disorder Act 1998

20. The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.

Council Policy Framework

21. The issues contained within this report do not represent change to Council policy or the Council's Policy Framework.

Decision Deadline

22. For the purposes of the 'call in' procedure this does represent an urgent matter.

Key Decision

23. This is a key decision because agreement to the recommendations will result in the Local Authority incurring expenditure which is significant. There will also be a significant effect on the communities living or working in an area comprising two or more wards within the area of the Local Authority.

Recommendation

24. It is recommended that:-
 - (a) The proposed Housing Revenue Account Budget for 2004/05 (**Appendix 1**) be agreed.
 - (b) The implementation of Rent Restructuring and formula rents be continued, as detailed in paragraphs 3 and 4.

- (c) That amended arrangements for service charges for Sheltered Housing, Extra Care Sheltered Housing and Blocks of Flats be adopted as follows:-
- (i) A mid-day meal be included as part of the Tenancy Agreement for new residents in Extra Care Schemes, with existing tenants encouraged to take up the new service with the full cost of provision recovered.
 - (ii) For Dalkeith House and other Extra Care Schemes, other service charges be based on actual cost for the individual scheme, with full recovery of costs over a five year period commencing 2004/05.
 - (iii) For Comprehensive Sheltered Housing and Blocks of Flats, charges for 2004/05 be based on the average cost of similar schemes, with full recovery of costs over a five year period.
 - (iv) For comprehensive Sheltered Housing and Blocks of Flats a review take place within the 2004/05 financial year to establish the impact of basing charges for 2005/06 onwards on the actual cost of individual Sheltered Schemes and Blocks of Flats.
- (d) Garage Rents and Service Charges as detailed in Table 3 be agreed.
- (e) That the proposals be submitted to Council for approval.

Reasons

25. The recommendations are supported by the following reasons -

- (a) To enable the Council to deliver an appropriate level of service to Housing tenants.
- (b) To reflect changing circumstances and conditions in the housing market.

Cliff Brown
Director of Community Services

Background Papers

- (i) 18 November 2003 - HRA Subsidy Determination for 2004/05 received from the ODPM.

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Appendix 1

	2003/04		2004/05
	Budget	Projection	Budget
	£000	£000	£000
<u>Income</u>			
Rents Of Dwellings (Gross)	(13,420)	(13,351)	(13,248)
Sundry Rents (Including Garages & Shops)	(282)	(289)	(295)
Charges For Services & Facilities	(89)	(91)	(97)
Interest Receivable	(85)	(85)	(71)
Total Income	(13,876)	(13,816)	(13,711)
<u>Expenditure</u>			
Management	2,439	2,524	3,007
Maintenance - Revenue Repairs	2,000	2,001	2,036
Maintenance - Planned	2,794	2,794	2,200
Rent Rebates	9,182	9,182	0
Housing Subsidy	(4,672)	(4,672)	4,623
Capital Financing Costs	2,131	2,131	1,604
Increase in Bad Debt Provision	100	100	100
Contribution to/(from) balance	(98)	(244)	141
Total Expenditure	13,876	13,816	13,711
(Surplus) / Deficit	0	0	0
Opening balance	843	843	599
Contribution to/(from) balance	(98)	(244)	141
Closing balance	745	599	740
Estimated closing dwelling numbers	5,926	5,926	5,826
Closing balance per dwelling	£125.72	£101.08	£127.02