

<b>13 February 2013</b>		<b>ITEM: 21</b> <b>01104192</b>
<b>Cabinet</b>		
<b>HOUSING BASE ESTIMATES, RENTS AND SERVICE CHARGES 2013/14</b>		
<b>Report of:</b> Councillor V Morris Cook, Portfolio Holder for Housing		
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Key	
<b>Accountable Head of Service:</b> Sean Clark, Head of Corporate Finance		
<b>Accountable Director:</b> Martin Hone, Director of Finance and Corporate Governance.		
<b>This report is</b> Public		
<b>Purpose of Report:</b> The report sets out the position regarding the Housing Revenue Account (HRA) for 2013/14 and outlines the recommendations for the setting of the rent, service charge increases and other charges from 1st April 2013.		

## **EXECUTIVE SUMMARY**

The report identifies changes within the base estimates between 2012/13 and 2013/14. Increases to the budget will need to be funded through savings or an increase to current rent levels, for which the options are detailed in **Table 2**. Recommendations need to be made to Council regarding the setting of the rent levels for dwellings, garages and travellers sites from 1st April 2013. The report also sets out the position regarding the Housing Revenue Account for 2013/14.

### **1. RECOMMENDATIONS:**

**Cabinet is asked to recommend to Council to:**

- 1.1 Note that the Housing Revenue Account (HRA) is estimated to generate a surplus of £4.7m as at 31 March 2013 (section 3.2.1);**
- 1.2 Agree that costs pressures (paragraph 3.3, Table 1) be included in the base budget for 2013/14;**

- 1.3 **Increase domestic rents by an average of 4.07%, in line with the 30-year HRA business planning following rent restructuring guidance, with effect from 1st April 2013 (see paragraph 3.4 and Table 2);**
- 1.4 **Agree a 2.60% increase in de-pooled service charges (see paragraph 3.5);**
- 1.5 **Agree a 2.60% increase in garage rents (Paragraph 3.6.1);**
- 1.6 **Agree a 2.60% increase central heating charges (see paragraph 3.6.2);**
- 1.7 **Agree a 2.60% increase in Travellers Sites Rent;**
- 1.8 **Agree that surplus funds, after the balance of the General Reserve exceeds £1.7m, be ring-fenced to the Development Reserve**
- 1.9 **Agree £0.320m of service improvements (see paragraph 3.4.1)**

## **2. INTRODUCTION AND BACKGROUND:**

### **2.1 What are the Base Estimates?**

The base estimates represent the cost to the Council of continuing to operate the existing level of service.

The major areas of income are:

- Rents and Service Charges - Paid by tenants; and
- Other Income - Income from leaseholder service charges and other miscellaneous sources.

The major items of expenditure on the HRA are:

- Major Repairs Allowance - this sum is used to finance the cost of major works as part of the HRA capital programme;
- Repairs and Maintenance - responsive repairs and planned maintenance; and
- Salaries - the cost of employing staff.

### **2.2 The Housing Subsidy System and Self Financing**

As detailed in the Cabinet report January 2011, there were significant legislative changes to the HRA financing system passed through the Localism Act that led to the abolition of the subsidy system.

The significance of this change in legislation is an increase in revenue resources, which accounts for the majority of the forecast net £4.7m budget surplus at the end of this financial year. These funds will be used to maintain

the existing stock, fund new-build dwellings and regenerate estates (subject to Recommendation 1.3).

A five year forecast of the HRA financial position is included within Appendix 1 of this report. This is the summary of the HRA 30-year business plan, and illustrates the overall financial projections.

### 3. ISSUES, OPTIONS AND ANALYSIS OF OPTIONS:

#### 3.1 PART A - BUDGETS

##### Housing Revenue Account Budget 2013/14

##### Forecast Out-turn 2012/13

3.2.1 Before considering the draft budget position in 2013/14, it is necessary to review the position in 2012/13. This will give an indication of the anticipated level of the HRA balance carried forward into 2013/14. This is detailed in the tables below:

##### Operating HRA Position – 2012/13

Directorate	Revised Budget	Forecast Pressures	Forecast Underspends	Total Variance
	£000's	£000's	£000's	£000's
Rent and Income	(44,991)	300	0	300
Financing	13,393	653	0	653
Repair and Maintenance	11,939	1,000	(800)	200
Development Reserve	6,530	0	(653)	(653)
Central Management	5,962	0	(500)	(500)
Area Offices	1,885	0	0	0
Caretaking	1,521	0	0	0
Grounds Maintenance	1,518	0	0	0
Sheltered Complexes	1,378	0	0	0
Lettings and Allocations	595	0	0	0
Estates	271	0	0	0
<b>Grand Total</b>	<b>(0)</b>	<b>1,953</b>	<b>(1,953)</b>	<b>0</b>

Financing of HRA in 2012/13

	£m	£m	£m
<b>Opening Unallocated Reserves 1 April 2012</b>			<b>(1.047)</b>
<b>Projected net operational overspends</b>			
- Responsive Repairs	1.000		
- Rent Loss on Void Properties	0.300		
		<b>1.300</b>	
<b>Projected net underspends</b>			
- Underspends within staffing budgets	(0.200)		
- Projected underspends within non responsive repairs	(0.800)		
- Underspends within supplies and services	(0.300)		
		<b>(1.300)</b>	
<b>Gross Operating Deficit</b>			<b>0.000</b>
<b>Contribution Required to Unallocated Reserves</b>			<b>0.653</b>

The following tables assume that there will be no significant development costs in 2012/13 and would need to be adjusted accordingly should there be so:

<b>Unallocated Balance</b>	<b>£m</b>
Balance as at 1 April 2012	1.047
Contribution to Unallocated Reserves	0.653
2012/13 Variance as above	0.000
Projected Balance as at 31 March 2013	1.700

<b>Development Reserve</b>	<b>£m</b>
Balance as at 1 April 2012	0.000
Refinancing/Budget Surplus	6.209
Contribution to Unallocated Reserve	(0.653)
Development Costs	(0.856)
Projected Balance as at 31 March 2013	4.700

The balance available for revenue purposes at the start of 2012/13 is estimated to be £1.700 million, with an additional £4.700 million within the development reserve

## Preparation of 2013/14 Base Budgets

- 3.3 A summary of the increases between the 2012/13 and 2013/14 budget estimate is shown in Table 1 below.

**Table 1**

<b>2012/13 to 2013/14 Budget Changes</b>	<b>£m's</b>
Revenue Contribution to Capital Programme	5.007
Increments and Salary Re-alignment	0.247
Inflation on Contracts	0.231
<b>Additional Cost Pressures</b>	<b>5.485</b>

- 3.3.1 The main reasons for the variances are as follows:

- 3.3.2 **Revenue Contribution to Capital Programme.** The Capital Programme report (included elsewhere on this agenda) identifies a requirement of additional investment in-order to meet the decent homes standard within the existing stock. To address these requirements, funding of £68m over the next 5 years is needed.

It is forecast that the balance within Capital reserves (MRR) will be £5m at the end of 2012/13. This funding will be used to help finance the programme. In addition, £10.3m in 2013/14 is the contribution that the HRA must set aside from its revenue resources to fund Capital maintenance (MRA). After consideration of these two funding sources, an additional £5.007m is needed each year, for the next 5 years to meet demand.

- 3.3.3 **Increments and salary re-alignments.** As part of the terms and conditions of employment, incremental increases within the salary estimates need to be budgeted for, as well as re-grading and changes within the staffing provision. To address this, a provisional estimate of £0.247m has been calculated.
- 3.3.4 **Inflation on Contracts.** This figure has been set in accordance with the contractual obligations within the responsive repairs contract with Morrison. However, due to recent changes, a contract is currently being renegotiated on an interim basis to commence from 31<sup>st</sup> January 2013. It is felt prudent however that in the interim an allowance for inflation be included within the base estimates.

## PART B – RENTS AND DEPOOLED SERVICE CHARGES

### 3.4 HRA Rent Setting.

The HRA rent setting options for 2013/14 have been finalised, and are detailed in the Table below. A presentation was made to tenants on 10 January 2013 to explain the rent setting process, and the options available to the Council.

The Table below is a summary of the options for increasing dwelling rents in 2013/14. These were presented to the Tenants Panel in January 2013.

The table shows the impact, on the average weekly rent (52 weeks) for each of the options, and the additional funding generated above that accounted for in the HRA 30-year business plan.

Cabinet is asked to consider the four rent increase options that are detailed in **Table 2** below.

**Table 2**

<b>Option</b>	<b>Rent 2012/13</b>	<b>Increase %</b>	<b>Rent 2013/14</b>	<b>Additional Income £000's Above Standard inflation</b>
<b>Option 1</b>	<b>77.72</b>	<b>4.07</b>	<b>80.88</b>	<b>320</b>
Option 2	77.72	4.95	81.57	681
Option 3	77.72	5.06	81.65	722
Option 4	77.72	5.08	81.67	735

Based on an average rent of £80.88 per week, it is forecast that this will generate an additional £1.910m after an allowance for voids of 1.60%. This is factored into the HRA business plan.

The additional income column in the table above shows the extra revenue that would be generated if one of the alternative options were to be implemented. This is revenue above that accounted for in the business plan, and could be used to provide additional revenue (or Capital) services to tenants. Based on the recommended option, the following service improvements are proposed:

#### 3.4.1 Service Improvements

- ✓ £0.200m for additional grounds maintenance works
- ✓ £0.080m to provide welfare advice to tenants in light of changes in legislation surrounding benefit reforms
- ✓ £0.040m additional allocated to “Local Schemes” budget for each geographical area within the borough

Further work will be done with residents to decide how these funds will be specifically deployed.

### 3.5 De-pooled Service Charges

As part of the overall rent calculation, and in order to follow rent restructuring, it is recommended that the de-pooled service charges (caretaking and concierge) are increased to £4.17 per week. This increase remains the same in all of the rent increase options, this equates to 2.60% increase.

Currently, there are no charges made in respect of Sheltered Housing Warden Services. A review of the service, involving residents, will be carried out next year, and charging options will be presented to Cabinet.

### 3.6 Other Charges

#### 3.6.1 Garage rents

The current weekly charges for garage rents are £8.16 for a Council tenant garage and £9.45 for a privately rented garage per week. In line with the 30 year HRA business plan, it is recommended to Cabinet that an increase of 2.60% be agreed in 2013/14, in line with the rate of consumer price inflation that has been applied to housing rents

#### 3.6.2 Heating charges

There are 144 sheltered housing dwellings in the Council stock for which landlord controlled central heating is provided. There are two weekly charges; £5.29 for 119 dwellings and £8.42 for 25 ex Greater London Council dwellings which are heated by gas. Cabinet is asked to recommend an increase in the weekly charge of 2.60%, which is the rate of consumer price inflation for September 2012.

### 3.7 Overall strategy

Having regard to the considerations outlined above, the impacts of the proposals within this report are set out in **Table 3** below.

**Table 3**

<b>Overall Budget Position</b>	<b>£000's</b>
Operating Revenue Surplus	(6,209)
Budget Pressures	5,485
Additional Rent Income	(1,910)
<b>Surplus / Contribution to Development Reserve</b>	<b>(2,634)</b>

Following the base budget strategy detailed within the report, surplus funding, following the financing of revenue and capital costs, of £2.634m will be generated. It is recommended, in line with the HRA business plan, that these funds are ring-fenced to the HRA Development Reserve which will form the basis of the new build and estate regeneration planned works.

#### **4. REASONS FOR RECOMMENDATION:**

- 4.1 The Council agreed to introduce the new formula based system with effect from April 2005. This was the subject of a detailed report to Cabinet on 19 January 2005. The proposal detailed below for increases to the rents are a direct consequence of following the national rent restructuring guidance with the aim to achieving convergence. The convergence target is to ensure that tenants of any social landlord, living in similar properties in similar areas will pay a similar level of rent.
- 4.2 As part of the 2008/09 rent setting report to Cabinet, the decision was taken to de-pool the service charge element from the overall rent charge. The service charge calculation for 2013/14 results in a weekly average charge of £4.17 at 2.60 %, which is the prevailing rate of consumer price inflation used in the rent setting calculation.

#### **5. CONSULTATION (including Overview and Scrutiny, if applicable)**

- 5.1 The key points in this report have been the subject of a presentation to Housing Overview & Scrutiny Committee.
  - 5.1.1 The options were presented to the tenants panel on 10 January 2013.

#### **6. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT**

- 6.1 The planned expenditure and changes to rents and service charges are key parts of the Councils Corporate Plan.

#### **7. IMPLICATIONS**

##### **7.1 Financial**

Implications verified by: **Michael Jones**  
 Telephone and email: **01375 652772**  
**mxjones@thurrock.gov.uk**

The financial implications are contained within the body of the report.

## 7.2 **Legal**

Implications verified by: **David Lawson**  
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The Council, under the 1989 Local Government and Housing Act have a legal obligation to set a budget for the Housing Revenue Account. Notices of any increases have to be sent to tenants 28 days in advance of the new charges coming into effect.

## 7.3 **Diversity and Equality**

Implications verified by: **Samson DeAlyn**  
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**sdealyn@thurrock.gov.uk**

The Council has a statutory duty under the Race Relations Act 2000 (Amendment) and the Disability Discrimination Act 2005 to promote equality of opportunity in the provision of services. The Council should note that in considering the options set out in this report, due regard should be given to the equality implication of any strategy, policy or function of the Council. This means that the Council must ensure that all policies and local strategies promote the inclusion of all groups and equality of opportunity.

## 7.4 **Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

None.

### **BACKGROUND PAPERS USED IN PREPARING THIS REPORT (include their location and identify whether any are exempt or protected by copyright):**

- None

### **APPENDICES TO THIS REPORT:**

- Appendix 1 – HRA – Medium Term Financial Forecast
- Appendix 2 – HRA – Capital Programme and Financing

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**Medium Term Financial Forecast**

<b>Income and Expenditure</b>	<b>1-Apr-13 31-Mar-14 1</b>	<b>1-Apr-14 31-Mar-15 2</b>	<b>1-Apr-15 31-Mar-16 3</b>	<b>1-Apr-16 31-Mar-17 4</b>	<b>1-Apr-17 31-Mar-18 5</b>
<i>£m</i>					
Rent	42.8	44.1	45.1	46.4	47.6
Tenanted Service Charge Income	2.2	2.3	2.3	2.4	2.5
Leasehold Service Charge Income	0.5	0.6	0.6	0.6	0.7
Other Income	2.0	2.1	2.1	2.1	2.2
<b>Total Operating income</b>	<b>47.5</b>	<b>49.0</b>	<b>50.1</b>	<b>51.5</b>	<b>52.9</b>
Management Costs	-13.5	-13.9	-14.3	-14.8	-15.2
Repairs and maintenance costs	-12.9	-12.9	-13.3	-13.7	-14.1
Other Costs	-0.1	-0.1	-0.1	-0.1	-0.1
<b>Total operating costs</b>	<b>-26.5</b>	<b>-27.0</b>	<b>-27.8</b>	<b>-28.6</b>	<b>-29.5</b>
<b>Net operating cashflow before financing</b>	<b>21.0</b>	<b>22.0</b>	<b>22.3</b>	<b>22.9</b>	<b>23.5</b>
Interest	-5.8	-5.8	-5.8	-5.8	-5.8
Depreciation	-10.3	-10.5	-10.7	-10.9	-11.1
<b>Net operating cashflow after financing</b>	<b>4.9</b>	<b>5.7</b>	<b>5.9</b>	<b>6.2</b>	<b>6.6</b>
RCCO	-2.3	-2.1	-1.9	-1.7	-1.5
Debt repayment	0.0	0.0	0.0	0.0	0.0
Interest on balances	0.0	0.0	0.0	0.2	0.2

**Medium Term Financial Forecast**

<b>Income and Expenditure</b>	<b>1-Apr-13 31-Mar-14 1</b>	<b>1-Apr-14 31-Mar-15 2</b>	<b>1-Apr-15 31-Mar-16 3</b>	<b>1-Apr-16 31-Mar-17 4</b>	<b>1-Apr-17 31-Mar-18 5</b>
<b>Surplus/(deficit) after appropriations</b>	<b>2.6</b>	<b>3.6</b>	<b>4.0</b>	<b>4.7</b>	<b>5.3</b>
<b>Opening General Reserves</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>
<b>Closing General Reserves</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>
Opening Development Reserve	4.7	0.0	0.0	0.0	0.0
Contribution to Development and Regeneration	2.6	3.6	4.0	4.7	5.3
Planned Development and Regeneration	-7.3	-3.6	-4.0	-4.7	-5.3
<b>Closing Development Reserve</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Capital Programmes and Resourcing	1-Apr-13 31-Mar-14 2	1-Apr-14 31-Mar-15 3	1-Apr-15 31-Mar-16 4	1-Apr-16 31-Mar-17 5	1-Apr-17 31-Mar-18 6
<i>£m</i>					
Capital programme	-13.6	-13.6	-13.6	-13.6	-13.6
Estate regeneration	0.0	0.0	0.0	0.0	0.0
New build	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>-13.6</b>	<b>-13.6</b>	<b>-13.6</b>	<b>-13.6</b>	<b>-13.6</b>
<i>Funded by</i>					
Depreciation	10.3	10.5	10.7	10.9	11.1
Capital proceeds	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>10.3</b>	<b>10.5</b>	<b>10.7</b>	<b>10.9</b>	<b>11.1</b>
<b>Capital shortfall</b>	<b>-3.3</b>	<b>-3.1</b>	<b>-2.9</b>	<b>-2.7</b>	<b>-2.5</b>
<i>Funded by:</i>					
RCCO	2.3	2.1	1.9	1.7	1.5
Major Repairs Reserve	1.0	1.0	1.0	1.0	1.0
<b>Capital Programme Surplus (MMR) / (Deficit)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Major Repairs Reserves Opening Balance</b>	<b>5.0</b>	<b>4.0</b>	<b>3.0</b>	<b>2.0</b>	<b>1.0</b>
<b>Major Repairs Reserve Closing Balance</b>	<b>4.0</b>	<b>3.0</b>	<b>2.0</b>	<b>1.0</b>	<b>0.0</b>

<b>Capital Programmes and Resourcing</b>	<b>1-Apr-13 31-Mar-14 2</b>	<b>1-Apr-14 31-Mar-15 3</b>	<b>1-Apr-15 31-Mar-16 4</b>	<b>1-Apr-16 31-Mar-17 5</b>	<b>1-Apr-17 31-Mar-18 6</b>
HRA Debt b/f	166.1	166.1	166.1	166.1	166.1
Debt Drawdown	0.0	0.0	0.0	0.0	0.0
HRA Debt c/f	166.1	166.1	166.1	166.1	166.1
Borrowing limit	188.1	188.1	188.1	188.1	188.1
<b>Headroom</b>	22.0	22.0	22.0	22.0	22.0