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| 26 February 2014 | | ITEM: 13 |
| Council | | |
| Housing Base Estimates, Rents and Service Charges 2014/15 | | |
| Report of: Councillor V Morris Cook, Portfolio Holder for Housing | | |
| Wards and communities affected: All | Key Decision: Key | |
| Accountable Head of Service: Sean Clark, Head of Corporate Finance | | |
| Accountable Director: Barbara Brownlee Director of Housing | | |
| This report is Public | | |
| <p>Purpose of Report: The report has been referred to the Council by the Cabinet. It sets out the position regarding the Housing Revenue Account (HRA) for 2014/15 and outlines the recommendations for the setting of the rent, service charge increases and other charges. It also recommends prudential borrowing to support the HRA new build Programme.</p> | | |

EXECUTIVE SUMMARY

The report identifies changes within the base estimates between 2013/14 and 2014/15. 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 5. The report sets out the recommendations the Cabinet has requested the Council to consider regarding the setting of the rent levels for dwellings, garages and travellers sites for next financial year 2014/15.

1. RECOMMENDATIONS:

The Council is recommended to:

- 1.1 Note that the Housing Revenue Account (HRA) is estimated to generate a surplus of £0.311m as at 31 March 2014;**
- 1.2 Agree that the costs pressures set out in Table 4 be included in the base budget for 2014/15;**
- 1.3 Increase domestic rents by an average of 5.64%, in line with the 30-year HRA business planning following rent restructuring guidance, with effect from 7 April 2014;**

- 1.4 **Agree a 3.7% increase in de-pooled service charges;**
- 1.5 **Agree a 3.2% increase in garage rents;**
- 1.6 **Agree a 3.2% increase central heating charges;**
- 1.7 **Agree a 3.2% increase in Travellers Sites Rent;**
- 1.8 **Agree a prudential borrowing requirement of £25.040million to finance the HRA Development Programme.**
- 1.9 **Agree that the HRA maintains its minimum level of general reserves at £1.7m with a maximum level of general reserves of £3.0m.**

2.0 INTRODUCTION AND BACKGROUND:

- 2.1 The report sets out the base estimates for the Housing Revenue Account (HRA) for 2014/15. The key changes are discussed in the report.
- 2.2 The report identifies changes within the base estimates between 2013/14 and 2014/15. Increases to the budget are detailed as being funded through a combination of savings and uplift to current rent levels.
- 2.3 The Housing Revenue Account base estimates have been compiled in accordance with the 30-year business plan. This takes into account the long term strategy for the financial viability of the service

Background:

- 2.4 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 residential and commercial leaseholder service charges and other miscellaneous sources.

- 2.5 The major items of expenditure on the HRA are:

- Capital Financing - this sum is used to finance the cost of major works as part of the HRA capital programme. This is calculated in accordance with the 5 year HRA Capital programme.
- Repairs and Maintenance - responsive repairs, planned maintenance and adaptations;
- Salaries - the cost of employing staff; and
- Funding of housing development and regeneration.

3. ISSUES AND/OR OPTIONS:

Forecast Out-turn 2013/14

3.1.1 Before considering the draft budget position in 2014/15, it is necessary to review the position in 2013/14. This will give an indication of the anticipated level of the HRA balance carried forward into 2014/15. This is detailed in the tables below:

Table 1

| Description | Original Budget | Revised Budget | Forecast Pressures | Forecast Under spend | Total Variance |
|------------------------------|-----------------|----------------|--------------------|----------------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Area Office | 1,722 | 1,539 | 0 | 0 | 0 |
| Caretaking | 1,526 | 1,555 | 0 | 0 | 0 |
| Central Management | 6,973 | 6,026 | 601 | (130) | 471 |
| Financing | 21,113 | 18,995 | 0 | 0 | 0 |
| Grounds Maintenance | 1,518 | 1,500 | 0 | 0 | 0 |
| Lettings and Allocations | 609 | 856 | 0 | 0 | 0 |
| Rent and Income | (47,093) | (47,093) | 450 | 0 | 450 |
| Repair and Maintenance | 12,306 | 13,003 | 0 | (280) | (280) |
| Sheltered Complexes | 1,326 | 1,347 | 0 | (45) | (45) |
| Development and Regeneration | 0 | 2,272 | 0 | (907) | (907) |
| Grand Total | (0) | 0 | 1,051 | (1,362) | (311) |

Table 2

| <u>Variiances</u> | Forecast Pressures £'000 | Forecast Underspend £'000 | Total Variance £'000 |
|----------------------------------|-----------------------------|------------------------------|-------------------------|
| Development & Regeneration | 0 | (907) | (907) |
| Loss on Voids | 350 | 0 | 350 |
| Loss on Non Dwelling Rent Income | 100 | 0 | 100 |
| Council Tax on Void Properties | 40 | 0 | 40 |
| Environment SLA | 0 | (80) | (80) |
| Neighbourhood Action Plan | 0 | (50) | (50) |
| IT Budget | 0 | (50) | (50) |
| Insurance Premiums | 20 | 0 | 20 |
| Offset of RTB Admin costs | 50 | 0 | 50 |
| Business Services Under spend | 0 | (30) | (30) |
| Dispersed Alarms Adjustment | 30 | 0 | 30 |
| Housing Improvement Management | 0 | (200) | (200) |
| Central Management Costs | 461 | 0 | 461 |
| Sheltered Housing Management | 0 | (25) | (25) |
| Sheltered Housing Complex's | 0 | (20) | (20) |
| Total | 1,051 | (1,362) | (311) |

- 3.1.2 There are two main adverse variances within the HRA this year, which are the loss of income on voids, and central management costs.
- 3.1.3 The HRA void loss is due to number of voids now rather than length of turn around. Voids are being refurbished and re-let in circa 33 days which is a considerable improvement on the performance in the last two years, but the variance on the budget remains as a result of having over 880 voids this year compared to the 5 year average of 600 pa. The increase is due to downsizing (circa 100 extra) and new allocations policy prioritising existing tenants (circa 160 extra).
- 3.1.4 The central management costs remain a £300k reduction on original budget but are showing as a £600k pressure against the mid year revised budget.
- 3.2 The Forecast outturn position has the following affect on the level of reserves within the Housing Revenue Account

Table 3

| | £m | £m | £m |
|---|---------|----------------|----------------|
| Projected net operational overspends | | | |
| - Central Management | 0.601 | | |
| - Rent and Income | 0.450 | | |
| | | 1.051 | |
| | | | |
| Projected net underspends | | | |
| - Central Management | (0.130) | | |
| - Repair and Maintenance | (0.280) | | |
| - Sheltered Complexes | (0.045) | | |
| - Development and Regeneration | (0.907) | | |
| | | (1.362) | |
| | | | |
| Net Operating Position | | | (0.311) |

| Unallocated Balance | £m |
|---------------------------------------|-------|
| Balance as at 1 April 2013 | 1.700 |
| Required draw down from reserves | 0.000 |
| Projected Balance as at 31 March 2014 | 1.700 |

| Development Reserve | £m |
|---|---------|
| Balance as at 1 April 2013 | 2.791 |
| Budget Surplus | 0.311 |
| Development Costs / Contribution to Reserve | (3.102) |
| Projected Balance as at 31 March 2014 | 0 |

- 3.3 The projected outturn on the HRA in 2013/14, is an overall surplus of £0.311m

Preparation of 2014/15 Base Budgets

- 3.4 A summary of the increases between the 2013/14 and 2014/15 budget estimate is shown in Table 4 below.

Table 4

| | Budget Changes £'000 |
|---|-------------------------------------|
| Forecast Pressures: | |
| Salaries and Pay Award | 429 |
| Loss on Non Dwelling Rent Income | 100 |
| Council Tax on Void Properties | 40 |
| Inflation on Repairs Contract (3% x 5.5m) | 165 |
| Inflation on Housing SLA | 37 |
| Inflation on Utilities and Fuel | 62 |
| Insurance Premiums | 20 |
| Loss on RTB Admin Reclaim (legislation) | 50 |
| Dispersed Alarms Adjustment | 30 |
| | 933 |
| Forecast Reductions: | |
| CCTV Building Maintenance | (30) |
| Chad well Concierge | (30) |
| Additional water rate commission | (200) |
| | (260) |
| Net impact of 2014/15 Budget changes | 673 |

The main reasons for the variances are as follows:

- 3.5 **Loss of Rental Income: £0.100m:** This has been calculated by taking a prudent approach to the forecasted level of non dwelling rent income. .
- 3.6 **Increments and salary re-alignments £0.429m.** 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, changes within the staffing provision and pay awards. To address this, a provisional estimate of £0.429m has been calculated.
- 3.7 **Inflation on Contracts £0.203m.** This figure has been set as an estimate on inflation that could be applied on the interim responsive repairs contract with Mears that is currently being renegotiated. It is felt prudent however that in the interim an allowance for inflation be included within the base estimates.

- 3.8 **Additional water rate commissions:** Through successful negotiations with suppliers, at additional level of commission has been agreed resulting in an increase in income of £0.200m

PART B – RENTS AND DEPOOLED SERVICE CHARGES

3.9 HRA Rent Setting.

The HRA rent setting options for 2014/15 have been finalised, and are detailed in Table 5 below. A presentation was made to tenants on 20 January 2014 to explain the rent setting process, and the options available to the Council.

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.

The Cabinet were asked to consider the five rent increase options that are detailed in Table 5 below and decided to recommend that an RPI+0.5% + £5 affordability constraint is applied to the Council.

Table 5

| Affordability Constraint | | | | | HRA Impact | |
|--------------------------|--------------|---------|---------------|-------|------------|---------|
| | Average Rent | | | | At target | Cf Base |
| Option | 2013.14 | 2014.15 | Increase £ | % | % | £0 |
| Base | 80.93 | 84.67 | 3.74 | 4.62% | 2.10% | - |
| £2 | 80.93 | 85.06 | 4.13 | 5.10% | 68.20% | 203 |
| £3 | 80.93 | 85.30 | 4.37 | 5.40% | 84.60% | 328 |
| £4 | 80.93 | 85.41 | 4.48 | 5.54% | 90.20% | 385 |
| £5 | 80.93 | 85.50 | 4.57 | 5.64% | 92.60% | 432 |

- 3.10 Members will be aware, and previous HRA rent setting reports have detailed how the Council is following the governments rent restructuring policy. In brief, this is a strategy whereby each individual property within the housing revenue account has a convergence target (level of weekly rent) to ensure that tenants of any social landlord, living in similar properties in similar areas will pay a similar level of rent.
- 3.11 Legislation regarding rent restructuring has recently changed, resulting in the convergence period now being set at 2014/15. Therefore, in order for the Council to achieve its objectives and commitment of moving rents towards the

target, next financial year is the last opportunity for the council to have a significant impact on the level at which it sets housing rent at a local level. From 2015/16 onward, it is proposed that through rent controls, Councils will be limited to increasing rents at the CPI rate + 1%. It is important to consider the financial significance of this when recommending the rent increase option in 2014/15. In 2013/14, the Council planned for a five year Capital Programme. This was predicated upon a certain level of income being generated which was based upon the convergence of rent levels. Works are now well underway to deliver a high level of refurbishment to the HRA stock

- 3.12 Table 5, under the heading of “At Target”, illustrates where the Council will be in relation to converging its rents for each of the options, and the impact this has on what tenants will pay. The HRA 30-year business plan allowed for a convergence toward formula rents over a longer period than the changes to the legislation now allows. The rent level set in 2014/15 has a financial impact over both the short term (the base level of rent) and long term (the ability to generate additional revenue).
- 3.13 After considering the options, their financial impact on the HRA business plan and the affordability constraints for tenants, the recommendation is that an RPI+0.5% + £5 affordability constraint is applied. In addition, the Council will also be introducing a scheme of variable rents as per recommendation 1.3. This in effect means that when a property becomes void, and is subsequently improved, it will be re-let at the formula rent level calculated for the dwelling.
- 3.14 Under the recommend option detailed in Para 3.13 above, the average number of properties for the financial year 2014/15 has been calculated at 10,202, allowing for an estimated 50 sales. Based on an average rent of £85.50 per week, it is forecast that this will generate an additional £1.803m after an allowance for voids.
- 3.15 The “HRA Impact” column in Table 2 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. The Housing revenue account is committed towards ring-fencing additional resources for supporting its capital programme and new build and regenerating projects, rather than additional revenue expenditure i.e. staffing.

3.16 **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 by 3.7%. This calculation for this is to ensure that these services are self financing, and this increase will finance inflationary cost pressures that arise in 2014/15. Members are asked to agree this as per recommendation 1.4.

3.17 Other Charges

3.18 Garage rents

The current weekly charges for garage rents are £8.37 for a Council tenant garage and £9.70 for a privately rented garage per week. In line with the 30 year HRA business plan, the Cabinet has recommended that an increase of 3.20% be agreed in 2014/15, in line with the rate of consumer price inflation that has been applied to housing rents. Members are asked to agree this as per recommendation 1.5.

3.19 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; £5.43 for 119 dwellings and £8.64 for 25 ex Greater London Council dwellings which are heated by gas. The Cabinet has recommended an increase in the weekly charge of 3.20%, which is the rate of consumer price inflation for September 2013. Members are asked to agree this as per recommendation 1.6.

3.20 Travellers Sites

The Council currently maintains and provides services for the following sites, Pilgrims Lane, Ship Lane and Gammons Field

The gross cost of providing the service must be recovered by the Council through rent charges, excluding utility charges which are not supported by Housing Benefit payments.

The base budget for travellers' sites for 2013/14 has been reviewed and it is expected that there will be an increase in 2014/15 costs due to inflationary pressures. Therefore, in order to ensure that a breakeven budget is set, a 3.2% increase needs to be applied to the current weekly rent charge. Members are asked to agree this as per recommendation 1.7.

3.21 Prudential Borrowing and new builds

The HRA debt cap, following self financing was set at £187.064m. This is the upper limit to which the HRA can borrow money for capital expenditure. The debt settlement as detailed in previous reports was £160.889m, and the HRA had borrowing prior to this of £1.135m, which leaves "headroom" of £25.040m

The Capital Programme report elsewhere on this agenda details the HRA planned expenditure for the forthcoming years. Contained within this report are details of the new build Programme, which will be undertaken at the following locations:

| | | | | | |
|------------------|----------------------------|------------------|-----------------|-----------------------|------------------------|
| Seabrooke | Bracelet - LCHO | Derry Ave | Calcutta | Anton Road | Empty Homes |
|------------------|----------------------------|------------------|-----------------|-----------------------|------------------------|

The total cost of the developments above equal £26.519m.

The indicative financing of these schemes is as follows

| | £000's | £000's |
|----------------------------------|--------|---------|
| Total Cost of Schemes | | 26,519 |
| HCA Funding | | (2,584) |
| Right to buy Receipts | | (1,500) |
| Remaining / Prudential Borrowing | | 22,435 |

The £25.040m prudential borrowing will allow the HRA to finance the development Programme stated above, and also allow an element of Capital funding to be used to support the investment in existing properties and regeneration projects. Members are asked to agree this as per recommendation 1.8.

The HRA will follow the treasury management strategy used by the general fund regarding how the borrowing is undertaken.

Current estimates for the cost of borrowing as based on the PWLB rate over 40 years at 4.47%, which amounts to an interest cost of £1.117million per annum.

3.22 Overall strategy

Having regard to the considerations outlined above, the impacts of the proposals within this report are set out in Table 6 below.

Table 6

| Overall Budget Position | £000's |
|---|---------------|
| Net Budget Pressures Table 4 | 673 |
| Additional Income (Para 3.14) | (1,803) |
| Interest repayment on prudential borrowing (Para 3.21) | 1,117 |
| Contribution to Development Reserve | (13) |

3.23 Following the base budget strategy, the cost of interest on the additional prudential borrowing can be contained within the resources of the HRA, and still generate a small surplus to be contributed to the development and regeneration reserve.

3.24 It is clear that there is an ambitious capital programme for both refurbishment and new build within the HRA that will inevitably lead to budget variations through timing differences. As such, it is recommended that an upper limit of £3.0m be set for the HRA general reserve although the minimum level to manage risk remains at £1.7m.

4. REASONS FOR RECOMMENDATION:

4.1 The recommendations contained within this report have been considered by the Cabinet and referred to the Council for approval.

4.2 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 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 2014/15 results in a weekly average charge of £4.30 at 3.20 %, 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 on 31 January 2014.

5.2 The options were presented to the tenant's panel on 20 January 2014.

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**
Telephone and email: **01375 652824**
dlawson@thurrock.gov.uk

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**
Telephone and email: **01375 652472**
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.

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:

- None

Report Author Contact Details:

Name: Mike Jones
Telephone: 01375 652772
E-mail: mxjones@thurrock.gov.uk