

30 January 2014		ITEM: 9
Housing Overview and Scrutiny Committee		
Housing Revenue Account Base Estimates, Rents and Service Charges 2014/15		
Report of: Councillor Val 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		
Purpose of Report: The report 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		

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**. Recommendations need to be made to Cabinet and subsequently Council regarding the setting of the rent levels for dwellings, garages and travellers sites for next financial year 2014/15.

1. RECOMMENDATIONS:

The committee is asked to:

- 1.1 Note that the Housing Revenue Account (HRA) is estimated to generate a surplus of £0.311m as at 31 March 2014 (Table 1);**
- 1.2 Note the costs pressures (Table 4) included in the base budget for 2014/15;**
- 1.3 Consider the rent increase options (see paragraph 3.13 and Table 5) and provide a recommendation to Cabinet**
- 1.4 Consider a 3.7% increase in de-pooled service charges (see Paragraph 3.16);**

- 1.5 Consider a 3.2% increase in garage rents (Paragraph 3.18);
- 1.6 Consider a 3.2% increase central heating charges (see paragraph 3.19);
- 1.7 Consider a 3.2% increase in Travellers Sites Rent;

2. 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 an 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:

What are the Base Estimates?

- 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 further housing development and regeneration.

3. ISSUES AND/OR OPTIONS:

Forecast Out-turn 2013/14

- 3.1 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>Variances</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)

- 3.2 The Forecast outturn position has the following affect on the level of reserves within the Housing Revenue Account

Table 3

	£m	£m	£m
<u>Projected net operational overspends</u>			
- Central Management	0.601		
- Rent and Income	0.450		
		1.051	
<u>Projected net underspends</u>			
- 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	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 £0.429.** 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, an 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 Committee are asked to consider the five rent increase options that are detailed in **Table 5** below.

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. This was the option that was also favoured at the Tenants meeting on 20th January 2014.
- 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.

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, it is recommended to Cabinet 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

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. Cabinet is asked to recommend an increase in the weekly charge of 3.20%, which is the rate of consumer price inflation for September 2012.

3.20 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)
Contribution to Development Reserve	(1,130)

3.21 Following the base budget strategy, additional funds of £1.130m after financing cost pressures 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 finance new build and estate regeneration 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 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.

5.1.1 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**
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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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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:

- None

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