

COUNCIL

DATE: 20th February 2013

SUBJECT: HOUSING REVENUE ACCOUNT (HRA) ESTIMATES AND RENTS AND SERVICE CHARGES 2013/14

REPORT BY: EXECUTIVE

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IMPLICATIONS:

LEGAL COMMUNITY SAFETY

EQUALITIES ENVIRONMENT

FINANCIAL CONSULTATIONS

STAFFING OTHER

WARDS AFFECTED: ALL

PURPOSE

1. The purpose of this report is to refer to the Council the recommendations of the Executive with regard to the Housing Revenue Account (HRA) Estimates and Rents and Service Charges 2013/14.

RECOMMENDATION(S)

2. That the Council be recommended to approve:
 - (i) the Housing Revenue Account (HRA) budget for 2013-14.
 - (ii) an average increase in HRA dwelling rents and service charges of 4.95%, to apply from April 2013, as set out at paragraphs 18 – 21 below.
 - (iii) Rent levels for HRA garages to apply from April 2013 as set out in paragraph 22 below.

- (iv) an increase the Leaseholder Management fee as set out in paragraph 23 below.**
- (v) an average increase in rent levels for non-HRA council dwellings in line with that for HRA properties at an average 4.95% as set out in paragraphs 24 to 26 below.**
- (vi) that the revised rents and service charges recommended above be effective from 2nd April 2013 and the appropriate notice be served on tenants.**

REPORT

3. The Council currently provides over 8,000 homes for the community. These include a mixture of houses and flats, both for general needs and more specialist properties such as sheltered accommodation. The Council has to maintain a separate fund, the Housing Revenue Account, to account for all income and expenditure on these properties.
4. From April 2012 the housing subsidy framework will be replaced by a new system of 'self-financing', under which the Council will make a one-off capital settlement to the Government instead of making annual payments. The amount to be paid initially is prescribed by the Government at £89.456m, and is to be funded through borrowing at a fixed rate from the Public Works Loan Board. This will give the Council greater control over how HRA revenues will be managed.
5. The current HRA business plan shows the initial borrowing and the future 30 years balances. The figures indicate that there is room for new investment if the Council wishes to proceed. The maximum that can be borrowed is a further £20 million, although reserves could be used to provide limited additional funding. Any future investment is dependent on the Council meeting the income assumptions based on the Government's guideline rent requirements
6. The draft revenue estimates for the Housing Revenue Account (HRA) shown below have been prepared after consultation with the portfolio holder for Housing and the Leader of the Council. The Rents figure below will increase in line with the Executive decision for April 2013. Draft estimates were discussed with the Tenants' Consultative Committee on 16th January 2013. Their views are outlined in the consultation section of this report (para 28).

Table 1

Housing Revenue Account Estimates 2013-14	
	£
Supervision & Management	6,808,551
Repairs	11,472,611
Sheltered Accommodation	1,093,788
Other Revenue Expenses	102,126
Capital Financing	12,804,565
Total Expenditure	32,281,641
Customer & Client Receipts	24,660
Rents	32,898,821
Interest Receivable	103,100
Allocation of Costs to GF	297,850
Total Income	33,324,431
Net Surplus	1,042,790

7. In order to safeguard against any unforeseen contingencies it is recommended that a minimum balance of £1,250,000 be maintained at the end of any year. The opening balance on the account at the start of next year (1st April 2013) is currently forecast to be a surplus of £6,619,031. This is £6,745 less than forecast when the current year's budget was approved. The main reason for this is due to an overall increase in predicted expenditure as shown in Table 2 below, previously reported at Period 7 to Executive:

Table 2

	£
Staff savings	(535,155)
Provision for Bad Debt	(200,000)
Recharges	269,000
Interest receipts	(80,000)
Other Supplies and Services	(47,730)
Energy costs	(67,250)
Stock Survey	(90,000)
Increase in Rental Income	(38,120)
Reduction in Garage Rents	16,000
Service charges	30,000
Revenue Contribution to Capital Outlay (RCCO)	750,000
Total predicted overspend in 2012-13	6,745

8. The main driver for retaining reserves in the HRA beyond the prudent minimum of £1.25m is to pay for building new homes or for major improvement works to existing homes, using surpluses arising as a result of the freedoms and flexibilities given to the Council through self-financing. The annual HRA estimates and rents and service charges report will contain a medium-term estimate of the reserves earmarked for these purposes. Table 3 below shows the year-end reserve balances. Any balance above the minimum can be set aside for new build projects or major improvements.

Table 3

Use of Reserves	Reserves as at 31.3.12	Expected Reserves at 31.3.13	Expected Reserves at 31.3.14	Expected Reserves at 31.3.15
	£	£	£	£
Revenue Reserve	4,057,158	6,619,498	6,944,277	10,242,185
Capital Reserve	831,787	225,000		
Major Repairs Reserve	804,599			
Total Reserves	5,693,544	6,844,498	6,944,277	10,242,185
Investment Reserve	4,443,544	5,594,498	5,694,277	8,992,185
Minimum reserve balance	1,250,000	1,250,000	1,250,000	1,250,000
Total Reserves	5,693,544	6,844,498	6,944,277	10,242,185

9. If the money available for investment is used for new build, revenue reserves from 31st March 2013 will be at the minimum level of £1.250m. Maintaining reserves at minimum level would not allow for additional projects to be undertaken unless future income streams were increased. The reserves above include an inflationary increase in rents as per the current business plan.
10. At 31 March 2013, accumulated HRA reserves are forecast to be £6.619m, which includes a surplus during the current year of £2.562m. The projected balance of £6.844m is well above the balance determined in previous years as needed to cover the cost of unexpected eventualities
11. It has been proposed that part of the reserves should be used in 2013/14 to address identified areas of need, with emphasis on energy conservation measures. The following schemes have been put forward:

Table 4

	£
Energy Conservation Lewsey	250,000
Kitchen Improvements Lewsey	250,000
Energy conservation Marsh Farm	500,000
Environmental improvements (car parking?) Hart Hill	250,000
Energy conservation Hart Hill	250,000
Energy conservation Farley	500,000
Energy conservation Hockwell	250,000
Energy Conservation	100,000
TOTAL	2,350,000

12. The proposed investments would reduce expected reserves at the end of 2013/14 to £6.944m, after including the further revenue surplus forecast for next year. As for all capital projects, they would need to be appraised to ensure that they fit with council priorities and offer best value and would be subject to the council's consultation and procurement processes. The extract from the business plan in Table 3 assumes that this investment is undertaken.

Construction of 2013-14 budget

13. The following assumptions have been used in the preparation of the budget for 2013-14:
- The continuation of service charges for all chargeable services.
 - No individual tenant will be charged more than inflation (based on the Retail Price Index as September 2012 of 2.6%) plus ½% plus £2.00 per week for the overall impact of rent and service charge variations
 - Contracts let by Building Technical Services with a value of over £250,000 for maintenance directed at distinct groups of tenants will have a manager nominated to work with those groups to ensure effective tenant liaison and best outcomes for the project.
 - Council house sales under Right to Buy are assumed to be 13 for 2013-14 reflecting sales in previous years
 - No repayment of long-term debt
 - No new borrowing above the initial self-financing settlement figure at this stage. Executive approval will be requested should the need to borrow for investment arise in 2013-14.

Additional Cost

14. Welfare Reform will be introduced from April 2013, through which the Government is intending to make the Benefits system simpler. The main changes to the system that will affect the 2013-14 estimates will be where tenants who under-occupy properties will have benefit restricted to smaller property entitlements and where

tenants are paid benefit direct to their bank. This may result in an inability to pay (increasing rent arrears) or may cause significant increase in tenant transfers and thus void costs.

15. Six Direct Payment pilot schemes were set up earlier in the year from across the country. The findings of the first few months has shown that of the £7.7m paid direct to the 6,220 tenants on average only 92% was collected. The averages from across the individual schemes ranged from 88% to 97%. Other Local Authorities are estimating an increase in Bad Debt by over 5%. To provide against this, an additional £1m has been included as possible shortfall in rent recovery.

Efficiencies

16. A range of efficiencies totalling £469,500 have been included in the budget for 2013-14 and can be seen in Table 5 below:

Table 5

Saving Item	£
Communal Lighting	138,000
CCTV	28,000
Digital maintenance contract	97,000
Supplies and Services	139,000
Internal Interest	33,000
Recharges	34,500
Total Efficiency Savings	469,500

17. Further efficiencies are included on the corporate tracker for various service reviews, but as yet projects for savings are at an early stage.

Rents and Service Charges

Dwellings rent

18. A rent increase of 4.95% is recommended from April 2013. This is less than the amount implied by the Government's guidelines (para. 11 below), but is regarded as affordable and manageable through efficiency savings in the management of the council stock. The average weekly rent in 2012-13 (including service charges) was £79.22. Applying an increase of 4.95% would produce an average rent of £83.14, an increase of £3.92 per week
19. Using the Department of Communities and Local Government (CLG) prescribed formulae (up to a maximum for individual dwellings of 2.6% + 0.5% + £2), rents

and service charges would increase by 5.60% for 2013/14. This is based on an inflationary element of 3.1% plus an additional amount to meet Government target rent levels by 2015/16. An increase of 5.60% would raise average rents to £83.66, an increase of £4.44 per week.

20. Current average rent levels for Luton Council dwellings are below Government target following the extension of service charges in 2006-07 and local increases to rent levels in recent years below those necessary to meet the rent convergence target.

Service Charges

21. Charges to tenants are divided into rents (for dwellings) and service charges (for additional services received by some tenants). The decision to fully separate rents and service charges was agreed in 2006-07 to give transparency of cost. The proposed service charges for 2013-14 are set out in Appendix 2 and this shows the weekly amount required for recovery of the costs against those properties receiving the service.

Garages

22. Garage rents are currently £5.50 per week (exclusive of VAT where appropriate). The budget for 2013-14 and the further projections assume a 50p per week increase each year based on 52 weeks.

Leaseholders

23. The current management fee for leaseholders is £160 per annum, but this does not reflect the true cost of the service. A review has taken place and it is recommended that this is increased to £180 in 2013/14.

Non-HRA Properties

24. The Council owns and manages a number of residential properties that are not part of the HRA. Traditionally, the Council has increased the rents of these properties in line with any increase approved for HRA properties. The Council determined in January 2003 that the rent increase in respect of these dwellings should be at the same average rate as the Housing Revenue Account dwellings.

Gypsy / Travellers Site

25. Rent levels are currently £90.75 per week. An increase of £4.49 per week (4.95%) per site from April 2013 would yield an additional £4,492 in 2013-14

Stopsley Mobile Home Park

26. Rent levels are currently £34.02 per week. An increase of £1.68 per week (4.95%) per site is proposed from April 2013 and would yield an additional £3,620 per annum.

KEY RISKS

27. As the recommendation is not to increase rents to the levels allowable under the CLG formula, Luton will fall behind in reaching target rent. The impact of this will be year-on-year losses of potential income.
28. If efficiency savings were not achieved then it is likely that the reduction in expenditure would affect spending on repairs and maintenance. The table below shows the loss of income resulting in non implementation of the guideline rent increase:

Table 6

Ave Increase	Ave Rent & Service Charge	Loss of Income
5.60%	84.22	0
5.25%	83.93	(122,553)
5.00%	83.72	(210,091)
4.95%	83.67	(227,599)

29. Collection of rent and service charge income, in total near £33 million each year. It is anticipated that rent arrears may increase due to the prevailing economic climate. If the recommended rent increase is not approved (thereby reducing income) at the same time as arrears are increasing, the overall effect of income loss will be magnified.
30. The transition from performance-related piecework payments to a salary scheme for BTS operatives for delivering much of the HRA repairs and improvement programme will need to be monitored carefully to ensure productivity is maintained to deliver the work undertaken within the cost constraints of the budget/business plan.
31. The proposed changes to the housing benefits system, as laid out in the Welfare Reform Act, have the potential to place considerable budget pressures on the HRA. Paragraph 15 has shown that arrears are likely to increase with the effects of direct payments to the tenants. The Council will have to work alongside tenants

and set up Awareness programmes in order to anticipate and manage financial issues.

32. The Governments Direct Payments pilot projects are investigating a number of different elements to provide protection for landlords and tenants, including the following:
- Support for managing personal finance and budgeting.
 - Payments reverting to the landlord directly if a tenant falls into arrears, including early intervention
 - Supporting tenants to pay back their arrears and return to direct payments
33. Following the introduction of the increased discounts for Right to Buy, there is a risk that sales could increase and that properties will be replaced by new homes at affordable rents.

CONSULTATIONS

34. The portfolio holder has been consulted in the preparation of the report. The principles underlying the estimates for 2013-14 and the medium-term projections have been previously considered by the Council in June 2005 when determining the future ownership of the stock through the Stock Option Appraisal.
35. This report will be considered by full Council on 20th February 2013. Any views and recommendations made at that meeting will be reported subsequently.
36. An earlier draft of this report was considered by the Tenants Consultative Committee at its meeting on 16th January 2013. The TCC agreed with the recommendations (i) through to (vi) in the '*Housing Revenue Account (HRA) Estimates And Rents And Service Charges 2013-14*' report to the Council Executive, with the proviso that the increased leaseholder management fee (recommendation iv) be set at a level that reflects the actual cost to the service.

LEGAL IMPLICATIONS

37. There are the following legal implications to this report as agreed with David Watson in Legal Services on 6th February 2013. The Council has a legal requirement to review the Housing Revenue Account and ensure that it does not go into deficit. In addition, determinations made under the Local Government and Housing Act 1989 prescribes what can be charged to the HRA and the calculation of those charges.

FINANCIAL IMPLICATIONS:

38. The implications of recommended rent increases and other options are contained in the main body of this report as agreed by Ceri Davies, Interim Finance Manager Housing and Community Living, 25th January 2013.

EQUALITIES IMPLICATIONS

39. The Equalities Impact Assessment shows that there is a neutral impact on people and places however those living in areas of low income and or social deprivation can be assisted through means tested benefits. As agreed by Maureen Drummond, Social Justice Adviser, 14th January 2013

ENVIRONMENT IMPLICATIONS

34. An increase in rental income will lead to better maintained and insulated properties, using less gas and electricity and leading to decreased domestic CO2 emissions. As agreed by the Strategy & Sustainability Officer, 14th January 2013

APPENDICES: Circulated with the Council Enclosures

35. The following appendices are attached:

Appendix A - Integrated Impact Assessment
Appendix B - Proposed service charges from April 2013