

EXECUTIVE

DATE: 9th FEBRUARY 2009

SUBJECT: HOUSING REVENUE ACCOUNT (HRA) ESTIMATES
AND RENTS AND SERVICE CHARGES 2009/10

REPORT BY: DIRECTOR OF HOUSING AND COMMUNITY LIVING

CONTACT OFFICER: PAM GARRAWAY, RAY FRAMPTON, TREVOR
MORROW 01582 547501, 547488 AND 546202

IMPLICATIONS:

LEGAL	✓	STAFFING	✓
EQUALITIES	✓	COMMUNITY SAFETY	
FINANCIAL	✓	RISKS	✓

OTHER**CONSULTATIONS:**

COUNCILLORS CONSULTED	✓	SCRUTINY COMMITTEE	✓
		CONSULTED	
STAKEHOLDERS CONSULTED	✓	OTHER	

WARDS AFFECTED: ALL

LEAD EXECUTIVE MEMBER(S): COUNCILLOR SHAW

RECOMMENDATION(S)

1. Executive is asked to make recommendations to the Council in respect of:
 - (i) Approval of the HRA budget for 2009/10 as shown at Appendix A, subject to any amendments recommended by the Executive.
 - (ii) Rent and Service Charge levels at an average increase of 6.06% to apply from April 2009 (see paragraphs 4.8 – 4.11)
 - (iii) Rent levels for HRA garages to apply from April 2009 (see paragraph 4.12)
 - (iv) Rent levels for other non-HRA dwellings (see paragraph 5.1)

- (v) Rent levels for the Gypsy/Travellers Caravan Site (see paragraph 5.2)
- (vi) Rent levels for the Stopsley Mobile Home Park (see paragraph 5.3)
- (vii) That any revised rents and service charges recommended under (4.8) to (5.3) above be effective from 6th April 2009 and the appropriate notice be served to tenants.
- (viii) That the Council continue to lobby DCLG regarding the HRA settlement for 2010/11 to allow a more equitable settlement for Luton.

REPORT

2. Introduction

- 2.1 The Council currently provides 8200 properties. 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. The draft revenue estimates for the Housing Revenue Account (HRA) shown at Appendix A have been prepared after consultation with the portfolio holder for Housing and the Leader of the Council. Draft estimates were discussed with the Tenants Consultative Committee on the 28th January. Comparative figures for 2008/09 forecast out-turn and 2007/08 actual expenditure are shown in addition.
- 2.2 The opening balance on the account at the start of next year (1st April 2009) is now forecast to be a surplus of £ 2,647,347. This is £21,000 less than forecast when the current year's budget was approved. The main reason for this is due to a number of increases and decreases in predicted expenditure in 2008/09 as shown below:

Area	£
Increase in Communal Lighting costs due to higher electricity costs	132,000
Decrease in Subsidy payment to the CLG	(121,000)
Additional Income (rents, service charges, leaseholder charges and other sources)	(218,000)
Increase in Grounds Maintenance costs	73,000
Increase in Building Cleaning Charges	38,000
Other smaller variances	117,000
Total predicted variance	21,000

3. KEY CHANGES AND ASSUMPTIONS USED IN THE MEDIUM TERM FORECASTS:

- 3.1 The draft revenue estimates for 2009/10 for the Housing Revenue Account (HRA) are shown at Appendix A, together with a medium term forecast for a further four years up to 2013/14. The Appendix shows a balance at the end of

March 2014 of £5,684,000. In order to safeguard against any unforeseen contingencies it is recommended that a minimum balance of £1,000,000 be maintained at the end of any year. Although the balance at the end of March 2014 may seem healthy the Business Plan shows that the HRA will be close to the minimum balance shortly after this date and so there is limited scope for further cost increases or income reductions within the medium term, unless offsetting additional income or cost reductions are identified.

3.2 The following assumptions, have been used in the preparation of the forecasts at Appendix A:

- Extended progression towards rent convergence as per CLG guidance.
- 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 2008 of 5.0%) plus ½% plus £2.00 per week for the overall impact of rent and service charge variations.
- Council House sales are assumed to be 35 for 2009-10 and thereafter.
- Provision of £185,000 in 2009-10 for the implementation of the Service Excellence change plan and new IT system.
- No repayment of debt.
- The budgets in Appendix A are at estimated out-turn prices, with an underlying annual rate of pay increases at 2 % and current RPI increases or decreases on other expenditure.

3.3 The estimates assume new borrowing in each year at the level of the notified Supported Capital Expenditure from the government. This is £1,756,000 and this goes towards meeting the government's Decent Homes target.

3.4 The interest rate used for capital financing charges for 2009/10 is 3.90% (4.00% in 2008/09 original budget).

Growth

3.5 The following items have been included in the estimates as growth.

Increased Communal Lighting Costs	£150,000
HRA Business Plan Model	£15,000
Software Rental Licence Fee	£52,000
Revenue Total	£217,000

Efficiencies

3.6 The following items have been included in the estimates as efficiencies.

Purchase of Office Equipment	£27,000
Reduced Consultancy spend	£90,000
Reduction in the estimate for IBS system costs	£95,000
Investigation Agent	£26,210
Reactive Repairs	£10,000
Additional Income	£33,000
Total	£281,210

Government Grants

- 3.7 Housing subsidy is calculated by reference to a notional HRA formulated on Department for Communities and Local Government (DCLG) guidelines. The overall national subsidy position is estimated to be a net payment from Councils to DCLG of £100million in 2009/10. The elements in the notional account and the resulting payment from the Council to central government as negative subsidy are as follows:

	2008/09 Current Budget	2009/10	Variance	
	£000	£000	£000	%
Management and Maintenance costs	13,905	14,445	540	3.9
Major Repairs cost	5,935	6,126	191	3.2
Charges for Capital	1,680	1,643	-37	-2.2
Guideline Rent	-27,203	-28,352	-1149	-4.2
Interest Receivable on balances	-19	-15	4	21.1
TOTAL PAYMENT TO CENTRAL GOVERNMENT	-5,702	-6,153	-451	-7.9

- 3.8 The budget projections for 2009/10 are based on the new formula introduced by the DCLG for this year only. A total review of the Rents and Subsidy system is currently being undertaken. The major change to the Subsidy payment in 2009-10 will see the convergence date delayed to 2023-24. This is the date by which the government aims to achieve comparable rates across Council and Housing Association properties.

Rents and Service Charges

(a) Dwellings

- 3.9 The delay in the convergence date by the DCLG is intended to ensure that rents will be kept at an affordable level, as any increases/decreases in current rents will be reduced by 1/15th instead of 1/8th of the difference. In addition,

the CLG rent increase guidance of 5.5% has been applied. The CLG formula was created some time ago, when it was assumed that inflation would be relatively constant. It uses September price inflation, which was 5%. In applying this formula, checks have been made to ensure that no individual rent has increased by more than inflation (5.0%) plus 0.5% plus £2.00. The average rent in 2008/09 (including service charges) was £67.50. Applying the formula described above would see an increase of 6.06% to £71.57, an increase of £4.07. Executive can recommend a different level of increase provided the medium term plan reflects the constraints and risk referred to throughout the report. Should the Executive wish to reduce the average rent by 1%, then the average increase would reduce to £3.40 and the weekly charge to £70.90. The rental income that would be lost by limiting the average rent by 1% to 5.06% would total around £300,000. Each additional 1% reduction in the rent increase would reduce income from rents by around £300,000. Any reduction would need to be offset by efficiency savings and / or reductions in expenditure budgets. If efficiency savings were not achieved then it is likely that the reduction in expenditure would affect spending on repairs and maintenance

(b) Service Charges

- 3.10 The decision to introduce full service charges was agreed in 2006-07. The proposed service charges for 2009/10 are set out in Appendix B and this shows the weekly amount required for recovery of the costs against those properties receiving the service. Service Charges have increased by 2.30% on average for 2009-10
- 3.11 No new services have been unpooled in 2008-09. Where tenants are on housing benefit, they would still be entitled to receive benefits against these separate charges.

(c) Garages

- 3.12 Garage rents are currently £4.50 per week (exclusive of VAT where appropriate). The budget for 2009/10 and the further projections assume a 10p per week increase each year.

4. **2010/11 BUDGET**

- 4.1 This year, unlike previous years, the government has issued a two year settlement for Councils. The key points of the 2010/11 settlement are:
- The amount the government calculates its dues to or from each Council will be based on inflation (RPI) at September 2008 (5%). In Luton's case this will be used to calculate the increased amount paid back to DCLG known as negative subsidy. As the formula assumes rents will increase by 0.5% plus £2 a week more than inflation this would equate to an average rent increase of 6.1%.
 - However actual rent increases for tenants will be based on inflation at September 2009. If, as expected, inflation falls sharply over the next year there will be a substantial gap between what the government expects Luton (and other Councils) to collect in rent

income and the actual rent increases. In Luton's case every 1% reduction in rent income is equivalent to around £300,000. Therefore if inflation was actually 1% next September the Council would be facing a £1.2million reduction in expected income compared to the assumed DCLG target of 5%.

- 4.2 This potentially creates a substantial problem for the Council and the Council has already written to DCLG concerning this. It is proposed that lobbying continue to ask DCLG to review and alter this decision for 2010/11.

5. NON HRA PROPERTIES

Other non HRA properties

- 5.1 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 be based on the same principle as the Housing Revenue Account dwellings.

Gypsy/Travellers Site

- 5.2 Rent levels are currently £76.00 per week. An increase of £3.20 per week was approved from April 2008. An increase of £4.18 per week (5.5%) per site from April 2009 would yield an additional £4,180 in 2009/10.

Stopsley Mobile Home Park

- 5.3 Rent levels are currently £28.48 per week. An increase of £1.20 per week was approved from April 2008. An increase of £1.57 per week (5.5%) per site from April 2009 would yield an additional £3,450 per annum.
- 5.4 Major works are being considered for this site and any decision taken on the level of rent to apply to this site from April 2009 may require further review during the year. Any surplus on either cost centre will be transferred to the capital budget for future modernisation of the site.

6. LEGAL IMPLICATIONS

- 6.1 There are the following legal implications to this report as agreed with Richard Stevens in Legal Services on 26th January 2009. 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.

7. STAFFING IMPLICATIONS

- 7.1 There are no direct staffing implications contained in this report relating to the 2009/10 budget.

8. EQUALITIES IMPLICATIONS

8.1 It is estimated that 70% of tenants are in receipt of Housing Benefit, hence 30% of tenants would pay the whole of the rent increase. Any reduction would result in a short term gain for a small percentage of tenants due to the long term reduction on the capital/ improvement work

Those most at risk to the long term reduction in funding if rents are not increased in line with the guideline figure:

1. Older persons
2. Vulnerable children and adults
3. Disabled tenants

Should a reduction be approved that affects the long-term ability to undertake capital/improvement works then a full Equality Impact Assessment and Health Impact Assessment will be required.

Sandra Legate Equalities Manager Housing and Community Living 27th
January 2009

9. FINANCIAL IMPLICATIONS

- 9.1 These are contained in the main body of this report and have been agreed by the Housing and Community Living Finance Manager on 26th January.

10. RISK IMPLICATIONS

- 10.1 The Council must review the HRA and set income levels that prevent the account going into deficit. The draft budgets presented with this paper show an estimated balance at the end of 2013/14 of £5,684,000, which is over the recommended minimum balance level. It will be necessary to keep the account under review to ensure the balance does not fall below this level. Proposals to reduce rent income and/or increase expenditure could impact on the predicted level of balances. The major risks facing the HRA include:
- Changes to the subsidy regime operated by central government. Details of the annual subsidy calculation are released around Christmas each year for implementation the following April. This does not allow much time to forward plan. In addition the government is proposing substantial changes to this subsidy regime over the next few years. At this stage it is not possible to identify what the impact of any changes will be on Luton.

- The collection of rent and service charge income, in total over £28million each year.
- The implementation of a new IT system to replace In-house.
- The requirement to meet the government's Decent Home standard by 2011. This entails a substantial capital investment programme (£27million in 2009/10 and 2010/11 combined) with the project management and other risks associated with this.

11. COUNCILLORS CONSULTATIONS

- 11.1 The principles underlying the estimates for 2009/10 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.

12. SCRUTINY COMMITTEE CONSULTATIONS

- 12.1 This report has been considered by Performance, Resources and Assets Scrutiny Committee on 4th February. Any views and recommendations made at this meeting will be reported subsequently.

13. STAKEHOLDERS CONSULTATIONS

- 13.1 At its meeting of 28th January the Tenants Consultative Committee issued the following recommendation:

- The TCC supports the Executive's efforts to lobby the government to set a lower rent increase this year without being penalised with decreased funding next year. The TCC wishes to applaud our local representatives in this campaign and work in partnership with them to lessen the hardship placed upon Luton tenants, particularly in times of economic downturn.
- Tenant representatives feel that too great a rent increase will fall disproportionately on low wage earners who are already fearful of job cuts and are struggling with meeting essential spending such as ever increasing utility costs and Council Tax rises.
- The TCC wishes to see a reasonable rent set that reflects this changed economic climate.
- The TCC also is mindful of the importance of maintaining good services to tenants and therefore any cuts should be met, where possible, through efficiency savings.

- In view of the above the TCC is recommending that the Executive continues to lobby central government to alter its intention to penalise Councils who do not meet the full rent rise set by the Government.
- The TCC is accordingly recommending that the Executive decide on a 5.06% increase as being the best chance of lessening the burden on tenants and protecting them from swingeing cuts in service.

14. OPTIONS

- 14.1 Options for variations to the budgets, rent and service charge levels are contained within the report.

15. APPENDICES

- 15.1 The following appendices are attached to this report:

Appendix A: Housing Revenue Account Estimates 2009/10 and Medium Term Projections

Appendix B: Proposed Service Charges from April 2009

16. BACKGROUND PAPERS

- 16.1 Determinations issued by the CLG and Housing Estimates working papers held by Ray Frampton (01582 547488).