Southend-on-Sea Borough Council

Agenda Item No.

Report of Corporate Director for Corporate Services and Corporate Director for People

to

Cabinet

on

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Housing Revenue Account Budget 2014/15 and Rent Setting
Policy & Resources Scrutiny Committee
Executive Councillor: Councillor Lesley Salter
A Part 1 Public Agenda Item

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1 Purpose of Report

This report sets out the Housing Revenue Account (HRA) budget for 2014/15, together with the information necessary to set a balanced budget as required by legislation.

2 Recommendations

2.1 Cabinet are asked to recommend to Council that they adopt an average rent increase of 5.76%, as set out in section 4 below, effective from 7 April 2014.

Cabinet are asked to further recommend to Council;

2.2 Subject to 2.1 above, the 2014/15 HRA budget, as set out in Appendix 1;

2.3 That future rent rises be calculated to complete convergence over the following four years to 2018/19;

2.4 That with effect from 7 April 2014 that the rent for any property being let to a new or transferring tenant be set at the formula rent for that property;

2.5 The increases in other charges as set out in section 5;

2.6 Note the management fee proposed by South Essex Homes, as set out in section 6;

2.7 The appropriations to the Repairs Contract Pensions earmarked reserve and the HRA Capital Investment earmarked reserve, as set out in section 7;

2.8 That the HRA medium term Financial Plan as set out in section 8 and Appendix 3 be noted; and

2.9 The value of the Council's capital allowance for 2014/15 be declared as £31.502M, as determined in accordance with regulation 16 of the Local Authorities (Capital Finance and Accounting) (England) Regulations.

3 Background

3.1 The Housing Revenue Account (HRA) is the statutory "landlord" account for the authority. For Southend therefore this expresses in financial terms the level of housing service provided within agreed policy guidelines.

3.2 The Council is obliged by law to set rents and other charges at a level to avoid a deficit on the HRA balance (i.e. the legal minimum balance at any time during the financial year must be greater than zero). This report proposes an HRA budget that avoids a deficit balance.

3.3 Notwithstanding the introduction of self-financing for the HRA, the settlement was based on an assumption of continued rent restructuring and the on-going convergence of council rents to those within the registered landlord sector. The Government however have consulted on terminating rent restructuring a year earlier than planned, which dependent upon choices made could have a financially detrimental impact on the HRA. The outcome of the consultation is not yet known.

3.4 The estimates have been prepared alongside South Essex Homes, and incorporate their proposed management fee.

3.5 Summary estimates for the HRA are at Appendix 1.

4 Rent Increase

4.1 The average weekly rent charged is currently £78.85.

4.2 Under original government rent restructuring the rent rise process, the "standard" rent rise for 2014/15 would increase actual rents by 3.2% (to reflect inflation – RPI at September 2013), plus 0.5% for assumed increase in rent levels, plus the lower of one half of the difference between actual rents and formula rents (to converge with formula rents in 2015/16) or £2. For this authority applying the government's standard rent restructuring process would give an average increase of 5.48%.

Government Consultation on Rent Rises

4.3 Notwithstanding that the Government assumed that rent restructuring would be allowed to complete in 2015/16, and used this in its calculations of the £35M price the Council's HRA had to pay to the Treasury in March 2012 at the onset of self-financing, it has recently consulted on bringing in new restrictions on the Council's ability to raise its rents. The main thrust of the consultation proposals is to make 2014/15 the last year where any convergence to formula rent can take place, and from 2015/16 make the assumed rent rise CPI inflation plus 1% (which is broadly equivalent to RPI plus 0.5% as currently used). Although the Council will continue to have broad freedom to set its rents, the Government's stated aim of this change is to offer stability in financial planning for social housing providers and stability in rent rises for tenants and by extension the welfare bill.

4.4 The impact for the Council of not completing convergence is a loss of long term income that would have allowed for reinvestment back into existing homes and the potential generation of new homes: Over the 30 years of the HRA business plan, the potential lost income could be as high as £24.9M. The consultation closed on 24 December 2013; the outcome is not yet finally known although some clarity is now available.

4.5 Higher rents run the risk of penalty through the Housing Benefit Subsidy system called 'Rent Rebate Subsidy Limitation' in which the amount of rent rebate paid to the authority is limited to a maximum overall charge. The limit rent for 2014/15 has been set at £86.67 (letter dated 30 January 2014). Therefore in order to avoid 'Rent Rebate Subsidy Limitation' the Council must not increase its average rent above this amount. In setting this limit rent, the Government has however assumed convergence is achieved in 2014/15; that is notionally in one year. The limit rent is therefore high enough to complete convergence locally.

4.6 Members do have an opportunity with this rent rise to accelerate rent convergence from its current level of only 5%, whilst working within the constraint of rent rebate subsidy limitation. To accelerate convergence the formula used to calculate the rent increase can be altered by a combination of reducing the number of years to expected convergence to 1 year (currently set at 2 years) and increasing the maximum amount any rent is allowed to rise above inflation (currently set at £2 per week).

4.7 The government appears to be assuming the 2014/15 rent increase to be based on a national assumption of 1 year of convergence. This would give an average rent increase of 5.76% and convergence of 28% of properties. Any average increase beyond this level will increase the percentage of convergence further. Full convergence can be achieved by an average 10% increase in rents, taking the average rent up to the rent rebate subsidy limitation level of £86.67.

4.8 It is recommended that rents be increased by an average rise of 5.76%. This produces an average rent for 2014/15 of £83.40 per week. Members should note that the percent increases quoted represents the average increase across the whole stock. Individual rent rises will vary depending upon how near to rent convergence a particular rent is. The effective date of any increase will be 7 April 2014, being the first Monday of the new rent year.

4.9 There is of course any number of rent increases that could be applied. Appendix 2 sets out both a small range of other potential rent increases and their impact.

4.10 Notwithstanding the welfare reforms being brought in by the government, those whose rent is currently met fully from housing benefit should continue to receive the same level of financial assistance. Currently 52% of tenants are in receipt of full housing benefit, with a further 22% receiving some assistance; only 26% of tenants pay their rents in full.

4.11 Members are however reminded that a proportion of tenants will be impacted by other welfare reforms regardless of the rent rise. Where working age tenants are in under occupation of their home, any housing benefit payable will be reduced by 14% for one extra bedroom or 25% for two or more extra bedrooms. The other major change that will affect some tenants is the imposition of the wider benefit cap, which would limit the totality of all benefits to a maximum of £500 per week. Where total benefits, including housing benefit, exceed the cap, the housing benefit will have to be reduced to bring the total package back down to £500.

Completion of Convergence

4.12 On the basis of the recommended rent increase, 28% of properties will have reached their “converged” level. Notwithstanding the government’s expected desire that future rent rises are limited to a CPI +1% inflationary rise, given how legislation is currently drafted and given the level at which the rent rebate subsidy limit rent has been set, the Council should be able to continue with a local policy of convergence. This will enable the HRA business plan to maintain its integrity and still deliver the anticipated resources to both maintain and enhance the existing stock, but also give the opportunity to repay debt and / or invest in new stock. It is therefore recommended that a policy is adopted whereby future rent increases will be set to achieve rent convergence for all properties by 2018/19.

4.13 As part of this convergence process, it is also recommended that as from 7 April 2014, all new or transferring tenancies are automatically let at their converged, formula rent, rather than the current practice of reletting at the same rent as the departing tenant.

5 Other Fees and Charges

5.1 The HRA benefits from a number of income streams other than dwelling rents, the majority of which are set by the Council and therefore need a resolution for any increases.

Garages

5.2 Standard garages are currently charged at £9.90 per week for tenants (£11.88 being £9.90 plus VAT for non-tenants). It is recommended that these charges be increased to £10.40 per week for tenants (£12.48, being £10.40 plus VAT for non-tenants), a rise consistent with the proposal for the main rent increase. All variants on a standard garage to receive a proportionate increase.

Existing Service Charges

5.3 2010/11 saw the completion of the current round of service charge unpooling from the main rent. There are no proposals as part of this budget to unpool further costs from the main dwelling rental, although the situation will continue to be monitored for any new unpooling opportunities. There is therefore only the need to consider the uplift of the existing service charges currently levied. It is recommended that they be increased in line with the underlying average rent increase of RPI + 0.5%, namely 3.7%.

Heating Charges

5.4 Members will be aware that there is still a great amount of volatility in the utility markets, and continues to contribute to the inflationary pressures in the wider economy. All the major utility companies have increased their tariffs going into winter. It is therefore recommended that there is an inflationary increase in heating charges for 2014/15 of up to a maximum of 5%. Heating charges, although pooled across schemes, are monitored on a scheme by scheme basis, with the aim that each scheme broadly covers its costs. Therefore some schemes will potentially have a lower increase.

Careline

5.5 Careline is an important service provided to more vulnerable tenants and non-tenants alike, enabling them to feel secure in their own homes and reassured that help, if needed, is at hand. The Council, alongside South Essex Homes, are keen to ensure that while remaining a robust and reliable service; it is provided in the most cost effective way.

5.6 The physical delivery mechanism of this service changed during 2011/12 following an upgrade to the equipment, whilst at the same time leading to a reduced charge to sheltered housing tenants. Many of the recipients receive this service free of charge, with the Council picking up the cost through Supporting People.

5.7 The service is currently estimated to be operating on a breakeven basis and it is therefore recommended that the charge for this service be held static with no increase applied for 2014/15.

6 Management Fee to South Essex Homes

6.1 A management fee bid by the Board of South Essex Homes has been received by the Director for People, which following negotiations has been agreed.

6.2 The fee is normally made up of two principal elements; the core management fee which covers the day to day cost of running the service and an administration fee levied on the decent homes programme. The proposed fee has been set mindful of the financial pressures within the HRA, and in particular the current lack of any decent homes monies. The bid is summarised in the table below.

	2013/14 Budget £000	2014/15 Forecast £000	Change £000
Core Management Fee	9,455	9,156	(299)
Inflation Allowance		147	147
Total Management Fee	**9,455**	**9,303**	**(152)**

6.3 Under a three year agreement with South Essex Homes struck in 2012/13, the core management fee falls by £250,000 in real terms in 2014/15. In addition the first fruits of shared services between the Council and South Essex Homes are being seen, with £49,000 of savings being generated from service level agreements being struck for a shared contact centre and for legal services.

6.4 The inflation bid for South Essex Homes is in respect of running costs, primarily employee related, and costs of utilities.

7 Options to Balance the HRA

7.1 The HRA budget has been constructed using realistic estimates, and already incorporates a number of assumptions regarding efficiencies in the SEH fee and the absorption of inflation where possible. The budget also incorporates income rises as set out in the sections above, including subject to recommendation 2.1, an initial assumption of a 5.76% rent rise. On that basis there is an in-year budget surplus of £2.803M.

7.2 Under statutory transitional arrangements, an amount of £262,000 is credited back to the HRA, being the difference between depreciation charged on HRA dwellings and what the major repairs allowance would have been had subsidy continued.

7.3 The work during 2013/14 looking at the future of the ALMO highlighted a number of opportunities for efficiency gains that would benefit both the HRA and the General Fund. The ALMO Task and Finish Group, and subsequently Cabinet, endorsed the seeking of further efficiency savings by way of

- the Council and SEH continue to work actively to progress further moves to share services, and reduce areas of duplication. This should include co-location of SEH staff at the Civic Centre, while maintaining suitable access for SEH tenants and tenant representatives. Moves to share services should take into account moves by SEH and the Council to develop their commercial capacity and generate income from external sources

- That the assumptions built into the medium term financial strategy to reduce the management fee by £500,000 by 2016/17 are endorsed. However, further work should be undertaken to identify savings beyond this level and that this work should be built into the rent-setting process

7.4 On that basis, in addition to the £299,000 of efficiencies already built into the proposed management fee, a further allowance for efficiency gains of £86,000 has also been incorporated. The HRA MTFS going forward will be adjusted for its share of the anticipated efficiency savings to be derived from the work of the task and finish group.

7.5 These two further income lines bring the total surplus to £3.151M. £60,000 of this will be diverted to the Repairs Contract Pensions Reserve under the five year arrangement put in place when the repairs contract was let last year. Rather than just take the residual £3.091M surplus to the HRA balances, it is recommended that it be taken to the HRA Capital Investment Reserve where any revenue surpluses are being accumulated for use in support of future capital investment.

7.6 General HRA balances will still remain above the target of £3M at £3.502M.

8 HRA Medium Term Financial Plan and Strategy

8.1 The HRA Medium Term Financial Plan is shown at appendix 3. The forward forecast of the HRA is based on a general assumption of an underlying 2.5% RPI / 2% CPI.

8.2 For expenditure, the variations from the 2.5% assumption are:

- Repairs, where a 3% allowance has been made
- Insurance costs, where a 5% allowance has been made
- Provision for Bad & Doubtful Debts, where in 2014/15 a step change in the allowance has been provided for in recognition of the heightened risks of rent arrears arising from the governments welfare reforms, with a 3% increase thereafter
- South Essex Homes management fee, where a real terms increase of £50,000 per annum is provided for, before efficiency savings
- Depreciation and Interest Charges are based on the underlying business plan and treasury management strategy. The plan allows for borrowings to rollover on maturity.

8.3 For income, it is assumed that rent will increase by CPI + 1%, plus an amount to achieve rent convergence by 2018/19. Other income rises will be limited to CPI + 1%. The recharge to capital varies in line with the agreed HRA capital programme.

8.4 The Medium Term Financial Strategy demonstrates that the HRA is financially robust, as long as we continue to make efficiencies within the HRA and achieve value for money in the management and maintenance of the stock.

8.5 It also means that we now have a secure financial basis on which to bring forward a strategic housing development plan dealing with opportunities to both support the need to reinvest back into the existing stock and to allow for a more innovative capital programme that could allow for stock remodelling, new build etc.

Capital Allowance

8.6 The HRA capital programme is reported elsewhere on this agenda. This proposes an indicative programme of works over the next 4 years totalling £31.502M. At the same time, capital receipts generated by the sale of HRA assets continue to be subject to pooling arrangements with up to 75% of proceeds being paid over to government. The Council can take action to preserve the full value of its non right to buy capital receipts however by declaring a capital allowance under regulation 16 of the Local Authorities (Capital Finance And Accounting) (England) Regulations. This equates to the value of investment back into affordable housing, and as such is equal to the value of the HRA capital programme.

9 Other Options

9.1 Options available to Members are set out throughout the report, particularly in relation to the proposed rent rise.

10 Reasons for Recommendations

Part of the process of maintaining a balanced budget for the HRA is to consider and set a rent rise (and associated increases in other income streams). Full Council need to approve the HRA budget prior to the start of the financial year.

11 Corporate Implications

11.1 Contribution to Council's Vision & Critical Priorities
The recommendations in this report contribute directly to the Council's corporate priority to enable well-planned quality housing and developments that meet the needs and expectations of all of Southend's residents.

11.2 Financial Implications

As set out in the report

11.3 Legal Implications

None at this stage

11.4 People Implications

None at this stage

11.5 Property Implications

The recommendations in this report assist in the proper management of the Council's housing stock

11.6 Consultation

The proposals contained in this report were considered by Policy & Resources Scrutiny Committee on 30 January 2014, where given the current government consultation on rent levels, Members gave two recommendations, namely

That:

(a) In the current circumstances, the Committee would prefer the lowest level of rent increase of 5.48%; however

(b) As detailed in section 4 of the report, if the proposed conversion period is set at 1 year, the Committee would prefer the higher level of rent increase of 8.97%.

Appropriate notice of proposed increases in rents and charges has been factored into the timetable for implementing the recommendations of this report.

11.7 Equalities Impact Assessment

None at this stage

11.8 Risk Assessment

The financial risks associated with these proposals have been considered throughout this report, and in particular have been factored into the development of the self-financing business plan, and will be incorporated into the report on the robustness of the budget and the reserves policy to be presented to the March Cabinet.

11.9 Value for Money

The proposals within this report are consistent with the Council's plans to continue to improve value for money within the services it offers.

11.10 Community Safety Implications

None at this stage

11.11 Environmental Impact

None at this stage

12 Background Papers

Letter sent by DCLG dated 30 January 2014, setting out the rent rebate subsidy limit rent for 2014/15

13 Appendices

Appendix 1 – HRA Budget 2014/15
Appendix 2 – Rent Rise Scenarios
Appendix 3 – HRA Medium Term Financial Plan 2014/15 to 2017/18