

Southend-on-Sea Borough Council

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

to
Cabinet

on
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Agenda
Item No.

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Housing Revenue Account Budget 2015/16 and Rent Setting
Policy & Resources Scrutiny Committee
Executive Councillor: Councillor David Norman
A Part 1 Public Agenda Item

1 Purpose of Report

This report sets out the Housing Revenue Account (HRA) budget for 2015/16, together with the information necessary to set a balanced budget as required by legislation.

2 Recommendation

- 2.1 Cabinet are asked to recommend to Council that they adopt an average rent increase of 4.45%, as set out in section 4 below, effective from 6 April 2015
- Cabinet are asked to further recommend to Council
- 2.2 Subject to 2.1 above, the HRA budget as set out in Appendix 1;
- 2.3 The increases in other charges as set out in section 5;
- 2.4 Note the management fee proposed by South Essex Homes, as set out in section 6; and
- 2.5 The appropriations to the Repairs Contract Pensions earmarked reserve and the HRA Capital Investment earmarked reserve, as set out in section 7;
- 2.6 That the HRA Medium Term Financial Plan as set out in section 8 and Appendix 2 be noted; and
- 2.7 The value of the Council's capital allowance for 2015/16 be declared as £32.302M, 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 “formula” rent levels. The Government however have officially ceased the policy of convergence, effectively deeming that convergence completed in 2014/15. Their expectation is to see rents rise in line with CPI inflation plus 1% from now on. Local Government rents are not however regulated, unlike housing association rents, and therefore the Council maintains the freedom to set its rents up to the “formula” level.
- 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 £83.62.
- 4.2 Under changes introduced by the Government during 2014/15, rent restructuring no longer represents government policy. Instead they expect rents to increase by CPI inflation plus 1%. This would be 2.2%. They do expect Councils to move towards convergence through reletting of properties at formula rent levels, but are generally of the view that convergence has more or less been completed.
- 4.3 A “traditional” rent rise under the old policy of rent restructuring would have seen an average increase of around 3.27%.
- 4.4 In setting the 2014/15 budget, Council set a policy to complete convergence to formula rents by 2018/19, and that any property being let to a new or transferring tenant would have its rent set at the formula rent for that property. The HRA medium term financial plan at the time of setting the last budget predicted a rent rise of 5.67% in 2015/16.
- 4.5 Service Charges are made in addition to rents, and are discussed below.

- 4.6 Rent restructuring is not compulsory. Authorities may set rents higher or lower than the guidelines. However the notional business plan produced by the government in order to arrive at the debt settlement figure assumes that the rent restructuring process continues; the debt settlement is predicated on income derived from increasing rents in line with government guidance. Therefore to set average rents below those produced by completing convergence would result in less overall resources to the HRA and an inability to balance the account over the longer term without substantial cuts in the monies available for capital investment, repair, management and maintenance.
- 4.7 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. Although formal notification is still awaited, the limit rent for 2015/16 is estimated to be £88.57, which would be an average increase of 5.93%. Therefore in order to avoid 'Rent Rebate Subsidy Limitation' the Council must not increase its average rent above this amount.
- 4.8 Setting a rent increase based on the predicted rent rebate subsidy limit is risky; if the limit rent when eventually announced is lower the HRA will have to pick up the benefit bill for any excess (roughly 75p in the £). It is also not needed measured against the HRA business plan. Setting a rent rise below that assumed in the business plan does mean less resources being available than originally planned. However to keep to the rent rise assumed a year ago makes no recognition of the lower rate of inflation in the economy. An alternative approach could therefore be to strike a middle road by having a rent increase half way between what a traditional rent rise would have achieved and that predicted in the business plan, balancing the stability of the HRA finances against the low inflation economy. This can be achieved by an average rent increase of £3.71 (4.45%).
- 4.9 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 6 April 2015, being the first Monday of the new rent year.
- 4.10 Notwithstanding the welfare reforms being brought in by the government, those whose rent is currently met through housing benefit should continue to receive the same level of financial assistance.
- 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.

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 £10.40 per week for tenants (£12.48 being £10.40 plus VAT for non-tenants). It is recommended that these charges be increased to £10.80 per week for tenants (£12.96, being £10.80 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. This was the process where the previous “all-in” rent payment was split between the rent element and the service charge element. The reduced rental payment then resumed its convergence path with the formula 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 on average in line with the underlying average rent increase of CPI + 1%, namely 2.2%. This will enable service charges to be kept in line with the cost of providing the service. Service charges are generally covered by housing benefit where applicable.

Heating Charges

- 5.4 Members will be aware that there is currently a great amount of volatility in the oil market, which ultimately underpins the utility markets. Although not yet announced, there is a reasonable expectation of cheaper energy prices in 2015/16.
- 5.5 Moreover bearing in mind fuel poverty issues and that tenants in communal heating scheme properties effectively have no choice but to receive the service, it is important that charges are kept to a minimum, and reduced where possible. South Essex Homes have been undertaking detailed analysis of the costs of communal heating by scheme, and the split between the heating of individual properties within the scheme and the communal areas: Heating of individual properties within a scheme is chargeable under a heating charge, whereas heating of communal areas is charged through a service charge. The distinction is important as heating charges are ineligible for housing benefit, whereas services charges generally are eligible. South Essex Homes has been working to maximise the proportion of the heating costs attributable to a service charge. This may result in this particular service charge rising by more than the average 2.2% mentioned at 5.3 above.

- 5.6 There is no justification for any increase in heating charges in 2015/16. Heating charges are monitored on a scheme by scheme basis, with the aim that each scheme broadly covers its costs. Although schemes will vary, once further work has been done, it should be possible to actually reduce charges.

Careline

- 5.7 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.
- 5.8 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 2015/16. Many of the recipients receive this service free of charge, with the Council picking up the cost through Supporting People.

Supporting People Charges

- 5.9 Sheltered housing differs from general needs properties in that in addition to the normal landlord functions, there is more support offered around the welfare and social needs of the residents. However the basic rules of how these services are funded are clear, namely:
- property and general tenancy matters is funded from the rent paid, in as far as it relates to an individual property;
 - welfare provided (as opposed to care which is funded through adult social care arrangements) is funded from supporting people grant for those in receipt of housing benefit or through direct self-funding;
 - other costs such as heat and light for communal areas are met through service charges.
- 5.10 Rent and charges paid by tenants are eligible for housing benefit. Support may – subject to financial assessment – be provided free under the Supporting People charging rules. A proportion of the cost of the warden service within the sheltered schemes is still met through the supporting people arrangements, with the remainder charged as a service charge. The arrangements do however need to be reviewed from time to time and consequently there has been a re-evaluation during 2014/15 of the nature of current warden service to ensure that supporting people funding is only being used to fund welfare, not general tenancy or social elements. Consequent to that evaluation it is considered that the welfare element is more incidental to rather than primary to the warden service and therefore should be fully charged as a service charge, with no funding through supporting people.
- 5.11 It is stressed that this change is as a result of a re-examination of the balance of the warden service between welfare, general tenancy and social elements; it will not therefore result in a change to current service provision. Nor will it result in additional overall charges to tenants.

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. The bid is summarised in the table below.

	2014/15 Budget £000	2015/16 Forecast £000
Core Management Fee	9,303	9,303
Inflation Allowance		131
Total Management Fee	9,303	9,434

- 6.3 The inflation bid for South Essex Homes is in respect of increased costs, primarily employee related, offset by a falling in utility costs.

7 Options to Balance the HRA

- 7.1 The draft Housing Revenue Account Revenue budget for 2015/16 was considered by Cabinet on 20 January 2015. It was referred to Policy and Resources Scrutiny Committee on 29 January 2015 for detailed Member consideration.
- 7.2 The draft budget considered has been updated for the consequential impact of adopting general fund saving PL7 – anti-social behaviour (£80,000) and the latest view on the required revenue contribution to capital that part funds the provision of new homes on garage sites (£200,000). The HRA has been rebalanced through lowering the proposed appropriation to reserves.
- 7.3 The HRA budget has been constructed using realistic estimates. The budget incorporates income rises as set out in the sections above, including subject to recommendation 2.1, an assumption of a 4.45% rent rise. On that basis there is an in-year budget surplus of £0.508M.
- 7.4 Under statutory transitional arrangements, an amount of £1.813M 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.
- 7.5 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

7.6 On that basis, the shared service arrangements for the contact centre, legal services and HR services have already resulted in reductions in the management fee, together with offering service resilience. Additionally the relocation of South Essex Homes back into the Civic Centre is enabling a significant income stream to the Council's General Fund at no additional cost to the HRA.

7.7 Further opportunities to share services are still to be evaluated. In the meantime South Essex Homes have identified £340,000 of efficiencies that can be made against the management fee, £170,000 of which can be delivered in 2015/16. It has also been identified that due to reductions in the need for repairs and maintenance as a result of the significant investment in decent homes over recent years, the repairs budget can reduce by £230,000, bringing combined reductions in expenditure of £400,000 for 2015/16.

7.8 These two further income lines bring the total surplus to £2.721M. £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 £2.661M 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.

7.9 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 2. The forward forecast of the HRA is based on a general assumption of an underlying 2.0% RPI / 1.2% CPI.

8.2 For expenditure, the variations from the 2.0% assumption are:

- Insurance costs, where a 5% allowance has been made
- Provision for Bad & Doubtful Debts, where in recognition of the heightened risks of rent arrears arising from the governments welfare reforms, a 3% allowance has been made
- South Essex Homes management fee, where a real terms increase of £100,000 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 also allows for the end of the statutory mitigation referred to in 7.2 above. When the mitigation was introduced, it was only for the 5 years to 2016/17. Unless the Government renew the mitigation, from 2017/18 the full value of depreciation will be charged to the HRA and the resource then only being available for capital expenditure or debt repayment: The resource is not lost from the HRA but there is a loss in flexibility of use.

8.5 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.

8.6 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.

9 Capital Allowance

9.1 The HRA capital programme is reported elsewhere on this agenda. This proposes an indicative programme of works over the next 4 years totalling £32.302M. 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.

10 **Other Options** – options available to Members are set out throughout the report, particularly in relation to the proposed rent rise.

11 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.

12 Corporate Implications

- 12.1 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.
- 12.2 Financial Implications
As set out in the report
- 12.3 Legal Implications
None at this stage
- 12.4 People Implications
None at this stage
- 12.5 Property Implications
The recommendations in this report assist in the proper management of the Council's housing stock
- 12.6 Consultation
The proposals contained in this report were considered by Policy & Resources Scrutiny Committee on 29 January 2015. The Committee made observations about the level of the proposed rent rise but otherwise offered no comment on the HRA Budget.
- Appropriate notice of proposed increases in rents and charges has been factored into the timetable for implementing the recommendations of this report.
- 12.7 Equalities Impact Assessment
None at this stage
- 12.8 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.
- 12.9 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.
- 12.10 Community Safety Implications
None at this stage
- 12.11 Environmental Impact
None at this stage

13 Background Papers

None

14 Appendices

Appendix 1 – HRA Budget 2015/16

Appendix 2 – HRA Medium Term Financial Strategy 2015/16 to 2018/19