

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Director of Support Services
and Corporate Director of Adult and Community Services

to

Cabinet

on

12 February 2013

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Housing Revenue Account Budget 2013/14 and Rent Setting

Executive Councillor: Councillor Lesley Salter

A Part 1 Public Agenda Item

1 Purpose of Report

This report sets out the Housing Revenue Account (HRA) budget for 2013/14, together with the information necessary to set a balanced budget as required by legislation.

2 Recommendation

Cabinet are asked to recommend to Council

- 2.1 The HRA budget as set out in Appendix 1;
- 2.2 A rent increase in line with the Government's rent restructuring guidance, giving rise to an average increase 5.03% as set out in section 4 below, effective from 1 April 2013;
- 2.3 The increases in other charges as set out in section 5;
- 2.4 That the management fee proposed by South Essex Homes, as set out in section 6 be noted;
- 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 Strategy as set out in section 9 and Appendix 3 be noted; and
- 2.7 The value of the Council's capital allowance for 2013/14 be declared as £31.633M, 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 business plan is therefore predicated on completion of rent convergence and therefore Cabinet have limited discretion in this area.
- 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 Progress on Rent Restructuring

(See appendix 2 for a definition of rent restructuring)

- 4.1 The average weekly rent charged is currently £75.18.
- 4.2 Under rent restructuring, the Government scheme for 2012/13 expects authorities to increase actual rents by 2.6% (to reflect inflation – RPI at September 2012), plus 0.5% for assumed increase in rent levels, plus one third of the difference between actual rents and formula rents (to converge with formula rents in 2015/16). For this authority applying the government’s standard rent restructuring process gives an average increase of 5.03%.
- 4.3 Service Charges are made in addition to rents, and are discussed below.
- 4.4 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 following government guidance 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.
- 4.5 Higher rents run the risk of penalty through the 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 2013/14 is estimated to be £82.16, which would be an average increase of 9.28%. Therefore in order to avoid ‘Rent Rebate

Subsidy Limitation' the Council must not increase its average rent above this amount.

- 4.6 It is recommended that rents be increased in line with rent restructuring, giving an average rise of 5.03%. This produces an average rent for 2013/14 of £78.88 per week. Members should note that the percent increase 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 1 April 2013, being the first Monday of the new rent year.
- 4.7 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.
- 4.8 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. Those due to be affected by this change have been contacted by both the Council's Benefits Team and by South Essex Homes. 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. Once again those that will potentially be impacted by this change have been contacted. However the imposition of the cap that was also due to be brought in from 1 April 2013 has been delayed by the Department for Work and Pensions. It is understood that the expected implementation date will be September 2013.

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 £9.40 per week for tenants (£11.28 being £9.40 plus VAT for non-tenants). It is recommended that these charges be increased to £9.90 per week for tenants (£11.88, being £9.90 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 3.1%.

Heating Charges

- 5.4 Similarly heating charges had a fundamental review in the recent past that brought the balance of costs to charges levied into a healthy balance. No increase was made in 2012/13.
- 5.5 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 2013/14 of 5%.

Careline

- 5.6 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.
- 5.7 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.
- 5.8 It is recommended that the charge for this service be uplifted by 3.1% as with other service charges.

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 of Adult and Community Services, 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.

	2012/13 Budget £000	2013/14 Forecast £000	Change £000
Core Management Fee	9,678	9,405	(273)
Decent Homes Fee	100	0	(100)
Inflation Allowance		50	50
Total Management Fee	9,778	9,455	(323)

6.3 Under a three year agreement with South Essex Homes struck last financial year, the core management fee will fall by a further £250,000 in real terms in 2014/15. This will be built into the HRA Medium Term Financial Strategy.

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. On that basis there is an in-year budget surplus of £1.956M.

7.2 Under statutory transitional arrangements, an amount of £100,000 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 earlier in 2012/13 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. In recognition of the work about to be undertaken by the Member task and finish group, an allowance for efficiency gains of £75,000 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. Members are reminded that the totality of the potential for efficiency savings achievable was considered to be nearly £900,000 across the HRA, General Fund and Capital.

7.4 These two further income lines bring the total surplus to £2.131M. £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 £2.071M 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.

7.5 General HRA balances will still remain above the target of £3M.

8 HRA Self-Financing

8.1 Following the enactment of the Localism Act 2011, HRA subsidy ceased, and following the payment of a settlement figure on 28 March 2012, the HRA became self-financing from 1 April 2012.

- 8.2 The final settlement figure was £34.692M. This took total borrowing to be supported by the HRA to £94.076M. The borrowing costs associated with this level of debt have been factored into the draft 2013/14 budget. As part of the settlement process, an absolute debt cap was imposed on the level of HRA borrow that can be held. The cap stands at £102.159M, and gives borrowing headroom of just over £8M.
- 8.3 As mentioned above, the settlement was predicated on the assumption that the Council continues with the existing rent rise formula used under subsidy.
- 8.4 As part of planning for the change from the year by year subsidy system, to one where the Council can plan with greater certainty over the medium to longer term, a 30 year business plan has been developed that matches projected levels of income against anticipated spend. The initial business plan has been developed on a “business as usual” approach, including a number of assumptions, including;
- No changes to stock numbers or types, other than through right to buy losses;
 - Rents rise by RPI plus 0.5%, plus continue on the convergence path;
 - Capital funding is limited to an amount equivalent to the Major Repairs Allowance plus support that can be given from grant (2012/13 only) or surplus revenue funds;
 - Capital investment continues on the basis of achieving and maintaining “decency”;
 - An assumption that any surplus revenue funds after meeting capital investment is used to repay debt; and
 - Revenue balances are maintained at a minimum of £3M for the first five years and then rising by inflation thereafter.
- 8.5 Based on these assumptions, the 30 year business plan shows that it is possible to
- maintain a balanced HRA throughout that period;
 - meet current levels of capital investment, albeit with some rephasing; and
 - repay all debt by 2031/32.
- 8.6 Therefore the financial modelling and business plan outlined in this report allows for there to be sufficient security in the Council’s ability to manage the risks inherent in the new self-financing model and therefore for Members to agree the budget as laid out.

9 HRA Medium Term Financial Strategy

- 9.1 The HRA Medium Term Financial Strategy is shown at appendix 3. The forward forecast of the HRA is based on a general assumption of an underlying 2.5% RPI.
- 9.2 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 5% increase thereafter
- Depreciation and Interest Charges are based on the underlying business plan and treasury management strategy

9.3 For income, where inflationary increases are applicable, the traditional formulaic increases based on a 2.5% RPI assumption gives rise to the following

- Service charges etc, 3.1%
- Rents and Garages, under the rent restructuring approach,
 - for 2014/15, 5.55%
 - for 2015/16, 5.46%
 - for 2016/17, 3.63%
- The recharge to capital varies in line with the agreed HRA capital programme.

9.4 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.

9.5 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. It is anticipated that this can be brought to Cabinet by the autumn.

10 Capital Allowance

10.1 The HRA capital programme is reported elsewhere on this agenda. This proposes an indicative programme of works over the next 4 years totalling £31.633M, subject to the Housing Investment Strategic Review mentioned in that report. 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.

11 **Other Options** – options available to Members are set out throughout the report

12 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.

13 Corporate Implications

- 13.1 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.
- 13.2 Financial Implications
As set out in the report
- 13.3 Legal Implications
None at this stage
- 13.4 People Implications
None at this stage
- 13.5 Property Implications
The recommendations in this report assist in the proper management of the Council's housing stock
- 13.6 Consultation
Appropriate notice of proposed increases in rents and charges has been factored into the timetable for implementing the recommendations of this report.

The proposals contained in this report were considered by Community Services and Culture Scrutiny Committee on 29 January 2013, where observations were made about the continuing disparity between social housing rents and the more expensive private sector equivalents.

- 13.7 Equalities Impact Assessment
None at this stage
- 13.8 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.
- 13.9 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.
- 13.10 Community Safety Implications
None at this stage
- 13.11 Environmental Impact
None at this stage

14 Background Papers

None

15 Appendices

Appendix 1 – HRA Budget 2013/14

Appendix 2 – Definition of Rent Restructuring

Appendix 3 – HRA Medium Term Financial Strategy