

CABINET

12 February 2013

Title: Housing Revenue Account Estimates and Review of Rents and Other Charges 2013/14	
Report of the Cabinet Members for Housing and Finance	
Open Report	For Decision: Yes
Wards Affected: All	Key Decision: Yes
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Accountable Directors: Darren Henaghan, Corporate Director of Housing and Environment and Jon Bunt, Divisional Director of Finance	
Summary:	
<p>The Council has a statutory responsibility to manage the HRA as a ring fenced landlord account providing housing services to the Council's tenants and leaseholders. In line with the investment and service delivery objectives set out in the HRA business plan this report makes recommendations on the setting of rents, tenants' service charges and other charges for 2013/14, along with planned reductions in expenditure, to set a balanced revenue budget and maintain prudent reserves.</p>	
<p>This is the second year after fundamental changes to council housing finance came into effect from 1 April 2012 with the introduction of HRA self-financing. Annual subsidy payments to CLG were replaced by additional borrowing costs associated with the debt acquired as a result of the self-financing settlement (approx £265m). The Council is now able to set budgets to deliver its long term business plan and stock investment priorities.</p>	
<p>An HRA Business Plan was approved by Cabinet on March 2012, and a revised cash flow and resources statement was approved by Cabinet in July 2012 (Housing Capital Investment Programme 2012-17, 24 July 2012). This set out the investment needs and proposed resourcing for the Council's housing investment programme for the following investment themes:</p>	
<ul style="list-style-type: none">• Decent Homes Investment Programme• Initial estate renewal programme• New build programme	
<p>The recommendations contained in this report will require the Council's housing investment programme to be re-profiled marginally to match the revised level of resources. It should be noted that this is an annual process to align the investment programme to actual resources as rents are adjusted annually. In cash terms investment resources may well vary from the level estimated in the HRA Business Plan and the three year rolling investment programme is intentionally structured to allow for this process.</p>	

The intention is that future rent and service charge increases will be minimised and service levels improved by producing bottom line efficiency savings within the operational costs of the HRA. This will reduce the level of increase necessary to deliver business plan objectives and to maintain balances within the HRA held as a contingency against increased operating risks (such as increased rent arrears expected as a result of the forthcoming Welfare benefits changes).

As indicated above significant changes to welfare payments system, including Housing Benefit, are already being implemented on a phased basis, following enactment of the Welfare Reform Act 2012. This will affect many Council tenants through a number of changes including: benefits cap; size criteria for social housing; direct payments to tenants and the introduction of Universal Credit. The cumulative impact of these changes significantly increases the risk of lower income collection rates. To help mitigate the expected adverse impact of these changes, consideration is being given to the establishment of a team within the HRA to support tenants to maximise their income through a package of welfare benefits advice and employment support activities.

The proposed budget reflects these challenges and is designed to maintain the HRA investment programme and wider HRA Business Plan service objectives, with particular emphasis being given to affordability including tackling fuel poverty and the need to improve and increase the Council's new-build housing provision.

For tenants that are currently paying service charges in addition to their rent, the average total increase equates to 3.15% (3.7% in 2012/13), and compares favourably to most local authorities.

Recommendation(s)

The Cabinet is recommended to agree:

- (i) The HRA estimates for 2013/14 as detailed in Appendix 6;
- (ii) An overall average Council dwelling rent increase of 4.96% in accordance with the Central Government formula, which is equivalent to £4.21 per week and comprises the following:
 - New build and acquired Council homes - rents set at 50% or 65% of the Local Housing Allowance for the Borough.
 - Other houses - 5.46% average increase.
 - Other flats - 4.36% average increase.
- (iii) A decrease to tenant service charges of 2.38% (£0.66 per week);
- (iv) An increase to communal heating and hot water charges of 7% (£0.97 per week);
- (v) No increase to the garage rent levels set by Cabinet under Minute 4 (22 May 2012);
- (vi) That rents for commercial properties increase in line with lease agreements.
- (vii) The above changes taking effect from 1 April 2013.

Reason(s)

The council must prepare proposals in January and February each year relating to income from rent and other charges, and expenditure in relation to management and maintenance of its housing stock. A decision is required with regard to rents and service charges in February in order that statutory notice can be given to tenants prior to the 01 April 2013 implementation.

1. Introduction and Background

1.1 This report sets out the 2013/14 HRA budget, together with proposed increases in rent and other charges, reviews the forecast position and options for maintaining sufficient reserves as a contingency to safeguard against unforeseen events and generate the resources to ensure that the Council can deliver its Housing investment priorities.

HOUSING REVENUE ACCOUNT - SUMMARY FORMAT				
	2012-13 £000	2013-14 £000	Change £000	% Increase
INCOME				
Rents of dwelling	(84,616)	(86,627)	(2,011)	2.4
Non Dwelling rents	(2,574)	(2,502)	72	(2.8)
Charges for services and facilities	(17,153)	(17,529)	(376)	2.2
Interest and investment income	(93)	(336)	(243)	261.3
	(104,436)	(106,994)	(2,558)	2.4
EXPENDITURE				
Repairs and maintenance	19,522	19,000	(522)	(2.7)
Supervision and management	37,015	37,658	643	1.7
Service Transformation		1,000	1,000	-
Rent, rates, taxes and other charges	893	700	(193)	(21.6)
Provision for bad debts	992	3,158	2,166	218.3
Interest charges payable	9,684	9,759	75	0.8
TOTAL EXPENDITURE	68,106	71,275	3,169	4.7
Revenue Investment in capital	(36,330)	(35,719)	621	(1.7)

2. Proposal and Issues

2.1 The Council has a statutory responsibility through the Local Government and Housing Act 1989 to manage the HRA as a ring-fenced landlord account providing housing services to the Council's tenants and leaseholders. This report makes recommendations on the setting of rents and other charges for 2013/14 in accordance with the Council's statutory responsibility.

2.2 The Local Government and Housing Act 1989 Section 74 Part V1 specifies the major items that must be included in the HRA. Section 66(4) of the Act specifies that the HRA must be produced in accordance with approved Accounting Code of Practice

- 2.3 The Localism Act 2011 has introduced a new system of financial arrangements for council housing, replacing the former national HRA and subsidy system with local self-financing of council housing. In return for re-allocating the national aggregate council housing debt, councils now retain all of their locally generated income from council housing but will have no further recourse to Central Government in the management of its housing finances –the HRA now operates effectively as a standalone business within the Council
- 2.4 The Cabinet can determine to increase rents at a level higher or lower than national guidelines. It should be noted that any rent increase below that assumed in the business plan would reduce the council's ability to fund the future housing capital programme. Increases above national rent policy however are restricted due to Housing Benefit rent limits.

3. HRA Overview

- 3.1 Members should note that significant efforts have, and remain focused on improving the overall management of the HRA to ensure the account remains financially viable. This includes:

(i) Garage Strategy

During 2012 Cabinet agreed an approach to housing garages aimed at developing site specific responses to underused garages including:

- demolition, conversion to car parking
- consideration for alternative use
- Investing in sites, with provision made within the Housing Investment programme
- The development of a localised charging policy with charges linked to local, borough or out of borough usage

(ii) Water Commission

The council collects water and sewerage charges on behalf of Essex and Suffolk water (also known as Northumbrian Water Group) as part of its rent collection. This was a 3 year contract agreed in 2009/10 where a commission level, inclusive of void risk, of 13%, was agreed from a previous level of only 6.5%. This is now due for negotiation again and officers have started the process. The HRA budget assumes this process continues.

(iii) Repairs & Maintenance Contract

The contract with Enterprise is set to expire in 2013 and LBBDD is currently in the process of putting in place new arrangements for the future delivery of repairs and maintenance. From 2013/14 this will be delivered, primarily through an in-house service, with a Repairs help centre provided from Pondfield House in partnership with Elevate. Significant investment is being made within the current year to enable the new arrangements to be successfully put in place. Work will continue during 2013/14 to improve service delivery and realise efficiencies within the service and increase resident satisfaction and deliver savings of 2.7%.

(iv) Service Improvement & Efficiency

The Corporate Director of Housing & Environment is to lead a review of the delivery of housing management and related services, to test for performance and effectiveness. This will seek to identify best working practice in recognition of the changing stock requirements, as well as the wider public sector financial climate. It is intended that this should enable efficiency savings of a minimum of 5% to be identified through this exercise (£1.45m). In particular, the service will look for opportunities to mechanise and automate processes, increase income, and achieve efficiencies, supported in some cases through capital investment.

(v) Localities Model

The localities model is now in place with six locality areas providing housing, and environmental services. This includes environmental enforcement work as well as combined teams of staff providing horticulture, caretaking and street cleaning services under the coordination of a locality manager. The two wider areas have also undergone changes with new roles and responsibilities created. The localities model creates mixed HRA and General Fund teams and activities, aimed at providing flexible and responsive services which increase resident satisfaction and achieve efficiencies. The establishment of these teams are cost neutral to the HRA.

(vi) Estate Regeneration

The Council is committed to the regeneration of estates within the borough to redevelop uneconomic and obsolete properties and estates and to provide new affordable housing better suited to meet the needs of the community.

Consequently, a programme for an initial £46m was agreed by Cabinet for which revenue implications have been built into the HRA business plan and the budget for 2013/14.

Further analysis is being undertaken to ascertain the long-term financial and social sustainability of the stock within the HRA Housing Asset Management Strategy. Following this analysis further estate renewal reports will be brought to Cabinet on a scheme by scheme basis. Such proposals will be subject to a full options appraisal and viable business case to ensure that there is no adverse impact on the financial sustainability of the Housing Revenue Account. It is likely that a variety of funding methods will need to be considered to finance such a programme because of the resource constraints within the HRA.

4. Consultation

- 4.1 The proposal has been discussed with the Cabinet Member for Housing and Members have been briefed informally. The Council's Corporate Director of Housing and relevant Members have also agreed to progress with this budget and all relevant procurement, legal and communications departments and voluntary sector organizations involved have been consulted.

5. Financial Implications

Implications completed by: Jahangir Mannan, Group Accountant, Housing & Environment

The statutory format of the Housing Revenue account is included at Appendix 6. The analysis below refers to the Summary format in Table 1 in Section 1 of the report, as this is easier to understand and presents key issues for Members and tenants more clearly.

5.1 Rents of dwellings

- 5.1.1 Under the previous subsidy system the Government, through the rent restructuring policy, determined the annual increases in rent levels. The purpose of that policy was to charge tenants fair and affordable rents but to bring these closer to private sector market rents over time – convergence to a formula rents.
- 5.1.2 This policy has been superseded by the removal of the subsidy regime, but the government still wishes to secure convergence of rents over time. Their current expectation/wish is that rents will converge by 2015/16
- 5.1.3 The Government policy on calculating formula rents also includes a driver for inflation and for 2013/14 this is 2.6% (September 2012 RPI). With this inflationary factor embedded in the rent formula, the central government's proposed annual rent increase would be 4.96% or an average of £4.21 per week. The composition of the overall increase is:-
- New build and acquired Council homes – rents set at 50% of the Borough Local Housing Allowance level or at affordable rents above this (65%) – as agreed by Cabinet 13 November 2012
 - Other houses - rents increase by 5.46%
 - Other flats - rents increase by 4.36%
 - Void houses that have been refurbished to the full decent homes standard will be relet at rents set at 50% of the Borough Local Housing Allowance level.
- 5.1.4 There are number of properties within the HRA which are being used (and will continue to be used) as part of the Temporary Accommodation Strategy. The rent levels have been set at a higher amount than the current average levels, in order to cover the additional costs related to this type of placement. The expected number of these placements (c.1%) is a small proportion of the overall housing stock and has not materially affected the limit rent calculation for subsidy purposes. Overall there is a small surplus to the HRA as per the table below.

Temporary Accommodation Account	£'000
Rental Income	(3,120)
Staffing Costs	1,814
Non-staffing costs	1,000
Net surplus to HRA	(306)

- 5.1.5 As part of the Estate Renewal Programme, the HRA is also losing a significant number of properties, which have been earmarked for demolition. In 2013/14 the rental loss is estimated to be in the region of £2.2m.

5.1.6 Recent changes to Right to Buy legislation came into effect in April 2012. However, the number of sales within the borough have so far remained constant at around 50 sales per annum.

5.1.7 The table below shows the net expected rental income from the above changes:

Rental Income	£'000
2012/13 Budget	(84,616)
Rent increase 4.96%	(4,276)
Rent loss due to Estate Renewal	2,288
Right to Buy Sales	233
Increased rental income from Estate Renewal properties used as temporary accommodation	(520)
Other stock adjustments	264
2013/14 Budget	(86,627)

5.2 Non Dwelling Rents

5.2.1 Commercial property - rents are based on the contractual agreement in place at the start of the commercial let. The contracts determine the annual increase in the rental charge. Where a contract comes up for renewal or is a new contract then these charges are determined based on market conditions. It is anticipated that the current economic situation will have minimal impact on this income. There is a budgeted income of £1.56m in 2013/14.

5.2.2 Garage rents - income will increase in line with that agreed in the Cabinet report of May 2012, which reduces the high level of voids currently experienced in our garage stock.

5.3 Charges for services and facilities

5.3.1 Tenant service charges are split into two: firstly, an estimated service charge in respect of caretaking, concierge, grounds maintenance, security charges and TV aerials; secondly a recovery for combined heat and light cost which are charged by the energy suppliers.

It is proposed that these charges are changed by:

- Service charge: a reduction of -2.38%, or an average of £0.66 per week;
- Combined Heat and light: an increase of 7 %, or an average of £0.97 per week, in line with anticipated charges from utility companies.

5.3.2 Leasehold charges are based on actual costs incurred for the above services as directed by the Tenant and Leasehold Act 1985 and in accordance with the terms of the lease.

5.3.3 The HRA charges and collects water rates to tenants on behalf of the Essex and Suffolk (Water) Board (ESB). The ESB in return pay the HRA a fee for the management and collection of water rates. The ESB also determine the annual

increase in charges and these increases are applied to tenants by the Council. The ESB's proposed increase in 2013/14 is still to be agreed and so the Council has not been notified of the proposed increase to date.

5.4 Interest and investment income

5.4.1 The HRA treasury management function will form a key component of the business plan and HRA budgets. The two main aspects of this will be to ensure interest payments servicing the final debt allocation are minimised whilst cash flow management allows housing stock investment to progress as required.

5.4.2 The budgeted figure is an increase and represents the forecasted interest to be earned on higher than forecasted cash balances. This one-off improvement is mainly due to slippage in the 2012/13 capital programme, which has been used to take advantage of investment opportunities to get greater returns.

5.5 Repairs & Maintenance

5.5.1 The HRA provides a repairs and maintenance service to tenants as part of its duty as a social landlord. The wider HRA has a budget of £20m to meet its landlord duty in 2013/14 - £19m revenue (in the summary table) and £1m capital. The service will mainly be provided by an in-house DLO (direct labour organisation) and Elevate as existing the ten-year repairs contract with Enterprise expires in May 2013. The budget represents an efficiency reduction of £522k from the 2012/13 budget (2.6%) which has been made possible by bringing the repairs service in-house.

5.6 Supervision & Management

5.6.1 Elements of the overall HRA supervision and management budget will increase by £1.6m from £37.0m to £37.7m (1.7%). The increase in supervision and management costs can be separated into the following categories:

Non-Controllable expenditure (£8.9m)

- a) Energy costs are projected to increase in 2013/14 following formal announcement by energy providers suggesting an increase in rates of approximately 7% (£173k).
- b) Water & sewerage charges as set by Essex & Suffolk Water to increase by £700k. Both Energy and Water costs will be offset by increased income.

Controllable expenditure (£28.8m)

- c) Inflation on salaries set at 0% in line with the corporate policy. However, other cost increments and pressures add up to approximately £760k, of which around £300k represents additional works for temporary accommodation properties and is included in the amounts recovered back through its trading account (see table in 5.1.4). The remaining budget will be subject to an efficiency drive to reduce costs by approximately £1.45m. The net movement will be a reduction of £690k.
- d) Recharges to the HRA are for services provided to HRA tenants and leaseholders by internal Council services. These range from central service functions (such as Payroll, Finance and IT), to front line delivery services such as refuse collection,

grounds maintenance and building cleaning. Recharges of £12.7m were made to the HRA in 2012/13 and in 2013/14 this will increase to £13.157m, an increase of £457k (3.6%). As part of the savings process, a review of services and activities provided identified an additional £333k payable by the HRA, with the balance increase (£144k) due to price and volume increases in some activities.

5.7 Service Transformation

- 5.7.1 It is proposed to set aside a one-off sum of £1m (£500k revenue and £500k revenue contribution to capital) as a transformation budget to facilitate the delivery of efficiencies mentioned in 5.7.1 (c) above.

5.8 Rents rates & other charges

- 5.8.1 This includes the budget for council tax on empty properties, property insurance and rent of office premises. In view of the probable changes relating to technical Council Tax changes, such as a shorter empty period before tax is payable, a thorough review was made of this budget. This identified a net improvement in the budget for 2013/14 of £193k.

5.9 Provision for bad debts

- 5.9.1 The Council has followed the convention of setting a provision equal to 1% of all income raised to offset against non collection and debt write-off risk. There is a significant risk that the national Welfare Reform changes will pose a significant challenge to the Council's ability to collect income at current levels.
- 5.9.2 Whilst work is urgently being carried out by officers to determine the exact magnitude of this risk, an increase to the provision to approximately 3% based on results from the Government's pilot Welfare Benefits change implementation areas, has been included for budget purposes
- 5.9.3 As described elsewhere in this report, significant changes to welfare benefits, including Housing Benefit, are being implemented on a phased basis across the country. Initial studies show that this will affect many Council tenants principally through the introduction of a benefits cap within the new Universal Credit; occupancy criteria and direct payments of benefits to claimants.

The impact of these changes will significantly increase the risk of lower income collection rates. Accordingly, as part of the HRA's comprehensive and proactive approach to risk management, this risk is subject to ongoing scrutiny and a work programme is being devised and implemented to minimise the impact of the benefit changes on the HRA's income collection levels.

As part of this work programme consideration is being given to the establishment of a team within the HRA to support tenants to maximise their income through a package of welfare benefits advice initiatives and employment support activities.

5.10 Interest charges payable

5.10.1 The borrowing costs attached to the debt settlement in March 2012 represent a significant cost to the HRA, although the Public Works and Loans Board (PWLB) provided preferential rates for settlement debt. The HRA Budget therefore includes provision of £9.7m in 2013/14 to fund the ongoing borrowing costs of the settlement.

5.11 Housing Investment Programme

5.11.1 Table below is an extract from the latest HRA Business plan.

£m	10 yr	2012/13	2013/14	2014/15	2015-2021
Revenue investment in capital	409.2	36.8	35.7	35.0	301.7
Grant and new borrowing	114.9	11.2	43.8	41.4	18.5
Total capital resources	524.1	48.0	79.5	76.4	320.2
Total investment in existing stock	(349.9)	(21.1)	(38.8)	(33.3)	(256.7)
Total New Builds	(129.1)	(14.3)	(31.8)	(33.3)	(49.7)
New R&M service implementation	(5.0)	(2.0)	(3.0)		
Estate renewal	(40.1)	(6.0)	(9.6)	(7.5)	(17.0)
Total capital spend	(524.1)	(43.4)	(83.2)	(74.1)	(323.4)

5.11.2 In 2010/11 LBBDD commissioned Savills to carry out a detailed stock condition survey which highlighted the need to invest £1.2bn (over 30 years) in the Council's existing housing stock. This has formed the basis of a 30-year business plan to utilise HRA revenue to support this investment need.

5.11.3 The previous Government invited all authorities that had not yet achieved Decent Homes at the start of self-financing or all their stock to make bids for further resources to address the decent homes backlog. The Council on 11 January 2010 submitted a bid for the period of the current Government Spending Review period based on an updated stock condition survey. An allocation of £42m was made to LBBDD (£9.5m in 2012/13) over 4 years – although the last two years are subject to the outcome of the next Comprehensive Spending Review.

5.11.4 The HRA income and expenditure projections within the HRA Business Plan provide sufficient resources, under current assumptions, over the 30-year business plan period, to fund the Council's housing investment programme. The basic investment themes are:

- Estate renewal pump priming (£40.1m needed over 5 years)
- New build Council homes (£110.8m Council investment + £18.3m HCA grant improving);
- Investment in existing stock (£2bn over the full 30 years);

5.12.5 The HRA Business Plan must secure the financial viability of the HRA over the whole business plan period. This requires robust financial management to ensure that a balanced HRA budget can be set each year and to ensure that prudent HRA working balances are maintained as a contingency against unforeseen

circumstances and to support the delivery of quality services to residents in line with stakeholders' expectations and appropriate capital investment.

- 5.12.6 The HRA will also be providing a full management and maintenance service to Barking & Dagenham Reside, and potentially other similar projects, in return for a management fee. It will be appropriate for the HRA to manage this service within a separate account in the HRA to ensure transparency of costs in delivering this service. Such an approach will also enable the true costs and relative efficiency of service delivery to be analysed which will help drive bottom line efficiency savings within the HRA as indicated above.

6. Legal Implications

Implications completed by: Alison Stuart, Principal Solicitor - Housing and Regeneration

- 6.1 The Local Government and Housing Act 1989 places on the Council as a Housing Authority a duty to manage a ring fenced HRA; that is to say it is neither a burden on the General Fund or a net contributor. In addition there is a requirement that the HRA maintains prudent revenue balances.

7. Other Implications

- 7.1 **Risk Management** - The single biggest risk to the HRA budgets and its ability to met its landlord duty as well as fulfilling its aims of investment in current and new council stock, will be the potential adverse consequences of the new Welfare Reforms. Cumulatively, these changes will create a significant risk to the Council's ability to collect all of its income. Accordingly, the provision for bad debts has therefore been significantly increased.

The remainder of this section covers the risks that are more usually associated with this report, and more easily quantified.

Failure to approve recommendations in this report would mean that the Council would not have sufficient resources to meet its proposed capital investment strategy: build over 300 new Council homes; continue the estate renewal programme; and carry out refurbishments /improvements to the existing housing stock.

Within the budget setting process there is a degree of estimation and the adoption of assumptions which may or may not prove accurate. Any key assumptions are stated where necessary within this report.

There is a risk, albeit remote, that there could be a mandatory directive that forces the Council to follow rent convergence. If this were the case, future years' increases would be significantly higher than inflation due to the "catch up" that would be required over and above inflation. However, there has been no indication from CLG that this will be the case at present.

The repair and maintenance of the Council's stock is a significant cost to the HRA and the current contract with Enterprise is due to come to an end in May 2013. Although the design of the new in-house service is currently underway there are

risks around the ending of the existing contract and the set up and implementation of the new service.

The debt settlement figure has incorporated the decanting costs of the properties contained within the Estate renewal programme. However, a condition of the housing orders which enable the decanting is that for them to be effective the Council must decant these properties within five years. If there should be slippage in the programme costs would escalate.

Similarly, the New build programme, and Decent Homes programme are part funded through HCA grants, in return for delivering an agreed number of affordable homes and making number of current council properties 'decent'. Failure to deliver on those may mean a reduction of the grant allocation leading to a bigger contribution from HRA revenue to meet the shortfall or a smaller programme.

The Cabinet can determine to increase rents higher or lower than national guidelines but any rent increase below that assumed in the business plan would put at risk the Council's ability to fund the future housing capital programme. Increases above national rent policy however are restricted due to Housing Benefit rent limits.

7.2 Customer Impact - This report details officers recommendations on the annual rents and charges increase to tenants and leaseholders within the Borough.

Background Papers Used in the Preparation of the Report:

- Local Government Act 2003;
- Housing Revenue Account Manual;
- Department for Communities and Local government (CLG) 2011/12 and 2012/13 Subsidy Determinations;
- Office of the Deputy Prime Minister (ODPM) Consultation Papers on Resource Accounting and Rent Convergence;
- ODPM Consultation paper on the three year review of Rent Restructuring;
- Service Plan for Housing Services;
- Localism Act 2011

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