
HOUSING REVENUE ACCOUNT – REVENUE BUDGET 2012/13

**Responsible Cabinet Member - Councillor Veronica Copeland,
Adult Social Care and Housing Portfolio
Responsible Director – Murray Rose, Director of People**

SUMMARY REPORT

Purpose of the Report

1. To inform members of the changes to the Housing Revenue Account following the national review of the HRA subsidy system and to consider proposals for the revenue budget, rent levels and service charges for the Council's Housing Revenue Account (HRA) for the financial year 2012/13.

Summary

2. The report considers in particular the impact of the Government's Rent Restructuring Policy, the HRA Subsidy determination and the proposed increase in rent and service charges.

Recommendation

3. It is recommended that :-
 - (a) An average weekly rent increase of 7.70% (£4.59) be implemented in line with the Government rent restructuring model.
 - (b) Garage rents and service charges be increased as shown in Table 1.
 - (c) The budget at Appendix 1 be approved.
 - (d) The report be referred to Council for approval.

Reasons

4. The recommendations are supported to enable the Council to deliver an appropriate level of service to tenants.

**Murray Rose
Director of People**

Background Papers

HRA Subsidy Draft Determination for 2012/13 received from CLG

S17 Crime and Disorder	The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.
Health and Well Being	There are no issues relating to health and well-being which this report needs to address
Carbon Impact	There are no carbon impact implications in this report
Diversity	There are no diversity issues
Wards Affected	This will have an effect on the majority of the Wards in the Borough.
Groups Affected	All Council Tenants and Lifeline Service Users
Budget and Policy Framework	The issues contained within this report require Council approval and the report will be presented to Council on 1 March 2012.
Key Decision	This is a key decision because agreement to the recommendations will result in the Local Authority incurring expenditure which is significant. There will also be a significant effect on the communities living or working in an area comprising two or more wards within the area of the local authority.
Urgent Decision	For the purpose of the 'Call-in' procedure this does represent an urgent matter as four weeks notice is required for the increased level of charges.
One Darlington: Perfectly Placed	The report has no particular implications for the Sustainable Community Strategy.
Efficiency	As the HRA is a ring fenced budget every effort is made to maximise income and identify savings in order to maintain a high quality service.

MAIN REPORT

5. The current housing subsidy system and HRA ring-fence was introduced by part IV of the Local Government and Housing Act 1989. This sets out the requirement to keep a HRA and enables subsidy to be paid and received based on formulae determined by the Secretary of State.
6. From April 2012, the system of Local Authority Housing Finance (known as the Housing Revenue Account, or HRA) will be devolved to local authorities to manage themselves, this is known as Self-Financing of Council Housing Services.

The Government wanted to change this system because:

- (a) The current system is complex and does not deliver sufficient funding for councils to manage and maintain their homes to a good standard
 - (b) Councils cannot undertake proper business planning due to the annual nature of the system.
 - (c) The system assumes unrealistically low expenditure needs and so generates a large surplus for central government and accommodation that is not always adequately maintained.
7. It is recognised that every council is different and no two councils have the same needs. The new system aims to provide a solution that will work for all and is fair to both tenants and taxpayers.
 8. The Localism Bill passed through Parliament on 15 November 2011 and changes the way social housing is funded to pass more power to a local level. Previously, local authorities collected rent from their social tenants and then sent the money to central government. Central government collected all the money raised this way into a single pot. Local authorities were then paid a sum out of the pot each year for the upkeep, renovation and repair of social homes. Now, instead of having to send the money raised by rent to central government and wait to see each year what share they get allocated back, councils will be able to keep the rent and use it locally to maintain their social homes. This will give them a more predictable and stable basis to plan for the long term.
 9. The reform of the Housing Revenue Account will mean that Councils will be able to make local decisions on how to manage or improve their existing stock, pay back debt owed to central Government or, quite possibly, build new homes in the future, or a combination of all of these.

Information and Analysis

10. The proposed Housing Revenue Account budget for 2012/13 is shown at **Appendix 1**. The principal factors and key elements taken into account in the draft budget are:-
 - (a) The impact of the Government's Rent Restructuring Policy
 - (b) Self Financing of Council Housing
 - (c) A review of garage rents and service charges

(d) The programme of repairs and maintenance detailed in the Housing Business Plan.

Rent Restructuring

11. The main objective of the Government's policy on rent restructuring is that rents should be fair and affordable for tenants in the social rented sector. The policy sets out a common basis on which all rents in the social sector should be set. This means that the rent for a house or flat (known as the formula rent) is linked to its capital value, size, location, condition and local earnings so that tenants can make a proper choice between how much they pay and the size and quality of the property they live in.
12. Rents and service charges have traditionally been considerably lower for local authority housing than for housing associations and these proposals are intended to create greater standardisation of charges throughout the social housing sector. Originally rent convergence for both sectors should have been achieved by 2011/12 but the Government decided to limit increases for 2009/10 and 2010/11, to protect tenants from both high and variable increases due to inflation, while continuing to deliver their rent convergence policy. Therefore the rent convergence date will become fluid depending on the inflation rate. The convergence date in the 2012/13 Self-financing draft determination is currently estimated to be 2015/16.
13. The guideline increase in weekly rents is notified to local authorities by the Government through the draft self-financing determination and the proposed increase for 2012/13 is an average weekly rents increase by 7.7% (or £4.59) from £59.60 in 2011/12 to £64.19 in 2012/13. The financial impact of the proposed increase in charges is included in the draft budget shown at **Appendix 1**. Examples of the proposed weekly rent increases for 2012/13 are shown at **Appendix 2**.
14. Under 'self financing' the council's income stream will be mainly receipts from tenants' rents so it is important that rental income is maximised. Council's are free however to set rents at lower or higher levels than the government guideline rent increases, subject to certain constraints. In valuing the amount of debt we need to take on to buy ourselves out of the subsidy system CLG have based the model on assumptions about rental income and expenditure required to maintain the council's council housing stock over 30 years, and have assumed that we would adhere to the rent policy. These rent assumptions have been built into our 30 year business model. Tenants through their Tenants Board have consistently been keen to support effective investment in their homes, neighbourhoods and services and a hit on the business plan would undermine this. It should be noted that the proposed guideline rent increase would still offer our tenants' good value for money compared to the much higher rents charged by Registered Social Landlords or private sector landlords and over 70% of our tenants are in receipt of Housing Benefits which will cover the additional costs.
15. Any increase in rent levels above the guideline level would be subject to the 'Limit Rent' imposed by the Department of Works and Pensions which is the amount of rent eligible for Housing Benefit. For 2011/12 our limit rent has been set by DWP at a weekly average of £64.78 but this will increase each year in line with the government's model for rent convergence.

Self- Financing of Council Housing

16. The Housing Subsidy process will cease from 1st April 2012 following the national review of the Housing Revenue Account and will be replaced with Self Financing of Council Housing Services, which is still a ring fenced account. The Council's Housing Revenue Account will be substituted with a one-off debt settlement.
17. The value of the debt settlement is based on the cash flow of the Council's housing business, i.e. 30 years of rent income versus 30 years of outgoings on management, maintenance and major repairs. A discount rate has then been applied to give a net present value of the HRA, which for Darlington Borough Council equates to £33.8m of additional borrowing.
18. As Council housing borrowing counts as public sector borrowing, councils will not be free to borrow above their borrowing cap, thus restricting the amount of money that the Council will be able to borrow. If the borrowing cap is higher than the actual amount of debt, then the difference between these two figures is called 'borrowing headroom'.
19. The additional borrowing for the debt settlement has been negotiated at a discount rate with the Public Works Loan Board, and therefore it is not beneficial to the Council to repay debt in the early years but instead use this to invest in its council housing. The interest charges and repayment of the debt will be funded from the HRA.
20. The government has announced that the payment to them of 75% of the net receipt from Right-to-buy sales will continue. Local authorities will still keep 25% of the receipt and 100% of the receipt from other sales provided it is spent on new social housing, regeneration projects or paying off debt.

Garage Rents and Service Charges

21. The budget at **Appendix 1** includes the financial effect of the proposed increases. The proposed service charges for the Lifeline Service, Building Cleaning (flats) and Grounds Maintenance provide for achieving full recovery of costs from tenants of the schemes concerned. Details are shown at Table 1 below.

Table 1: Garage Rents and Service Charges

Description	Current Weekly Charge (11/12)	Proposed Weekly Charge (12/13)
	£	£
Garage Rents	6.04	6.34
Building Cleaning – Flats	1.54	1.56
Building Cleaning – Sheltered Schemes	2.99	3.07
Building Cleaning – Extra Care	9.39	9.64
Grounds Maintenance – General Housing	1.40	1.41
Grounds Maintenance – Blocks of Flats	1.40	1.41
Heating – Comprehensive schemes	10.91	11.46
Heating - Blocks of flats	1.03	1.08
Administration - Leaseholders	73.27	76.93
Furnishings and Fittings – Comprehensive Schemes	1.51	1.59
Furnishings and Fittings – Good Neighbour Schemes	0.68	0.71

Lifeline Response	4.99	5.06
Lifeline Premier Response (Sheltered Housing)	11.28	11.74
Pavement Crossings and Hardstandings	3.24	3.40
Mid-day Meal – Extra Care (Residents only)	28.56	30.31
Mid-day Meal – Extra Care (Non-Residents only)	34.65	36.40
Furnished Tenancies - 1 bed flat	25.87	27.16
Furnished Tenancies - 2 bed flat	26.90	28.25
Furnished Tenancies - 2 Bed House	41.71	43.80
Furnished Tenancies - 3 Bed House	43.65	45.83
Furnished Tenancies - White Goods	5.68	5.91
Guest Rooms in Sheltered Schemes	70.00	73.50
Door Entry Systems	0.52	0.55
TV Aerials	0.15	0.16

22. The additional costs will be covered by Housing Benefits and where appropriate Supporting People grant for the 70% of tenants who are eligible.

Value for Money

23. We continue to perform well on a number of value for money related indicators, for example we sustained our rent collection performance this year at 97%. We have also focussed our efforts on increasing value for money through efficiency. A number of improvements have been made to services which have resulted in reduced costs, for example the specification for Internal Planned Maintenance work has been altered to ensure that complete rewires are only carried out where essential, saving £150,000 per year. Motion sensitive lighting has been installed in sheltered accommodation resulting in further cost savings. A further example is the energy saving features of our new build properties which will provide better value for money for tenants by reducing utility bills.

Budget Pressures

24. The Housing Revenue Account subsidy determination maintained the resources for 2012/13 as was originally anticipated and there are no un-resourced pressures on the account. There is however constant demands on the HRA as it is a ring-fenced budget which will need to be carefully managed.

Consultation

25. The Tenants Board continue to be proactive and have had a significant workload during the year in terms of reviewing and improving service delivery within the Housing Revenue Account. They have taken part in National Tenants Conferences and have reviewed and assisted in the production of a new Annual Report for Tenants. Other major areas of work include:-
- (a) Task and Finish Groups - Board members on the Repairs and Maintenance task and finish group took part in the Rapid Improvement Group and contributed to the action plan to identify improvements needed to the repairs and maintenance service.
 - (b) In April the Board received their own budget and as a consequence of this reviewed their constitution to include more transparent financial regulations. The new

constitution was discussed and approved at a Special General Meeting on 8 February, 2012 and is included on the Tenants Board page of the Council website.

- (c) The new Leaseholders Handbook agreed by the Leaseholders Group and the Readers Panel is also available on the Council website.
- (d) Board members have visited new build and refurbished properties and talked to tenants to learn about their experiences.
- (e) In October members of Richmond Council's Tenants Panel met Darlington Tenants Board members to share ideas and discuss future plans.
- (f) Over the last year Board members have taken part in conferences to discuss:
 - (i) Tenants Panels
 - (ii) Introducing Social Media
 - (iii) Changes to the Complaints Procedures
- (g) Board members have carried out mystery shopping on Customer Services and Hot News.
- (h) Councillors Copeland and Thistlethwaite, Inspector Reeves and Officers from Darlington Borough Council's Street Scene and Highways have attended Tenant Board Meetings.
- (i) The Chair and Vice-Chair of the Tenants Board have attended the Council's Scrutiny Panel meetings.

26. This report has been considered by the Tenant's Board and obtained their support.

Financial Implications

- 27. Under Part 2 of the Local Government Act 2003 the Director of Resources as the Council's Responsible Financial Officer is required to inform Members of the robustness of the proposed estimates and the appropriateness of the level of projected Housing Revenue Account balances.
- 28. The Director of Resources has confirmed that the estimates have been prepared on the most up to date information available and within the guidance he has set out. For 2012/13, he is satisfied that these represent a fair view of the Council's ongoing plans and commitments, although Members will need to appreciate that some budgets more than others are subject to volatility and will, therefore, continue to be monitored closely and remedial action taken when appropriate.
- 29. He is also satisfied that the level of revenue balances in the Housing Revenue Account projected at 31 March 2012 (£0.582 M) are adequate particularly given the Council's track record in budget management and taking remedial action when necessary to correct variances from approved financial plans.

Conclusion

30. The key issues for consideration are the proposed weekly rent and service charges.