SPECIAL COUNCIL
28 FEBRUARY 2013

ITEM NO. 3 (b)

HOUSING REVENUE ACCOUNT – REVENUE BUDGET 2013/14

Responsible Cabinet Member - Councillor Veronica Copeland,
Adult Social Care and Housing Portfolio

Responsible Director – Richard Alty, Director of Place

SUMMARY REPORT

Purpose of the Report

1. To consider proposals for the revenue budget, rent levels and service charges for the Council's Housing Revenue Account (HRA) for the financial year 2013/14.

Summary

2. The report considers in particular the impact of the Government's Rent Restructuring Policy and the proposed increase in rent and service charges. This report was considered at the Special meeting of Cabinet held on 19 February 2013 and the recommendations listed below were endorsed.

Recommendation

3. It is recommended that :-

    (i) An average weekly rent increase of 4.4% (£2.85) is implemented in line with the Government rent restructuring model.

    (ii) The £160K General Fund contribution towards the cost of Sheltered and Extra Care accommodation ceases.

    (iii) Garage rents and service charges are increased as shown in Table 1.

    (iv) The budget at **Appendix 1** is approved.

Reason

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

Richard Alty
Director of Place

Background Papers
CLG Rent Restructuring Guidance

Pauline Mitchell: Extension 2505

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 28 February 2013.
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	This is not an urgent decision.
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. From April 2012, the system of Local Authority Housing Finance (known as the Housing Revenue Account, or HRA) was devolved to local authorities to manage themselves, this is known as Self-Financing of Council Housing Services.

6. The reform of the Housing Revenue Account means that Councils are now able to make local decisions on how to manage or improve their existing stock, pay back debt owed to central Government, build new homes in the future, or a combination of all of these. Setting rent level is also a Council decision, though with guidance from Government.

Information and Analysis

7. The proposed Housing Revenue Account budget for 2013/14 is shown at **Appendix 1**. The principal factors and key elements taken into account in the draft budget are:-

   (i) The impact of the Government's Rent Restructuring Policy

   (ii) Self Financing of Council Housing

   (iii) A review of garage rents and service charges

   (iv) Amendment to the funding and operation of the sheltered and extra care accommodation.

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

Rent Restructuring

8. 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.

9. 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. The rent convergence date is now fixed at 2015/16 as per the self-financing settlement.

10. Using the guideline increase in weekly rents in accordance with the rent convergence policy the proposed increase for 2013/14 is an average weekly rent increase by 4.4% (or £2.85) from £64.39 in 2012/13 to £67.24 in 2013/14. 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 2013/14 are shown at **Appendix 2.**

11. Under 'self financing' the Council's income stream will be mainly receipts from tenants' rents so increasing rental income and maximising investment in existing and new homes is important Councils 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 needed to take on to buy ourselves out of the subsidy system CLG based the model on assumptions about rental income and expenditure required to maintain the Council's 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 73% of our tenants are in receipt of Housing Benefits which will cover the additional costs.

12. In view of the difficult current economic climate and the impact of the Welfare Reforms on our tenants, Members may wish to consider other options than the guideline rent increase of 4.4%. Details are therefore shown in tables 1 and 2 below of the implications of two other potential options.

Table 1 : No Inflationary Uplift

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Current Proposal Working Balance	8,979	11,321	12,989	12,278	10,951	10,443	10,405
No inflationary increase in 2013.	8,195	9,853	10,917	9,686	7,844	6,826	6,281
Cumulative Difference	784	1,468	2,072	2,592	3,107	3,617	4,124

13. This option would reduce income by £500k each year which would have a significant detrimental impact on the 30 year Business Plan amounting to a loss of £14.7m. Subsequent increases would reflect the rent restructuring formula set each year by the Department for Communities and Local Government which is

based on September’s RPI Plus 0.5%.

Table 2 : Delayed Convergence by 5 Years

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Current Proposal Working Balance	8,979	11,321	12,989	12,278	10,951	10,443	10,405
Delayed Rent convergence by 5 years	8,836	11,013	12,489	11,563	10,066	9,432	9,310
Cumulative Difference	143	308	500	715	885	1,011	1,095

14. Current formula is to converge by 2015/16 and we are on average £1.69 away from converging. If this is delayed by 5 years for example, rent would increase in 2013/14 by 3.59%. This would reduce income by £142k in 2013/14 and the impact on the 30 year Business Plan would be £1.1m in total. This is due to the losses being in first 5 years, and then convergence continues. The subsequent increases would need to reflect the rent restructuring formula set each year by the Department for Communities and Local Government which is based on September's RPI Plus 0.5%.

15. A summary of the three rent increase options is provided at Table 3 below.

Table 3 : Rent Analysis of the three options

	Average Rent for 2013/14	**% Increase**	**£ Increase**
	£	%	£
Current Proposal	67.24	4.4	2.85
No Inflationary Uplift	64.39	0	0
Delayed Convergence	66.70	3.6	2.31

16. Pro's and Cons of the three options:

(i) Rent increase of 4.4%

Pro's

- The self-financing buy out settlement was based on local authorities continuing with rent restructuring and the current Business Plan assumes rent income at this level.

- Reduced income will require us to renegotiate with Council tenants on the timescales and levels of improvements to their home.

- Reduced capital investments could lead to an increase in day-to-day repairs which is a less cost-effective way of maintaining properties.

- Even at the point of convergence average rents will still be lower than private sector rents.

- Over 73% of tenants are in receipt of Housing Benefit and more tenants are likely to become eligible for support with their housing costs as rents rise.

- Most social housing providers are investing in preparing for the Welfare Reform charges with the average amount being £50k to increase staffing levels and awareness-raising. This is in addition to staffing restructures to provide greater support to tenants around financial planning, debt management, benefit take up etc. By increasing the overall rent level we are in a stronger position to target those in greatest need of support.

Cons

- The current economic climate is particularly challenging for low income households, which includes many of our Council tenants.

- Welfare Reforms are continuing to have a negative impact on Council tenants who are non-pensioners.

- The level of rent arrears may increase.

- May encourage tenants to be more benefit dependant.

(ii) No Inflationary Uplift

Pros

- For those tenants not in receipt of Housing Benefit they will have more disposable income.

- A recent IPSOS-MORI survey found Registered Providers anticipated rent arrears to increase by an average of 51% as a result of the Welfare Reforms. Rent increases may exacerbate this problem.

- May encourage some tenants to be less benefit dependent although we have some benefit claimants with up to three jobs.

Cons

- The 30 year Housing Business Plan is already at risk due to the following:-

- Increased bad debt provision needed in order to respond to a range of Welfare Reforms but particularly the Bedroom Tax, Benefit Cap and future requirements for tenants on benefits to pay their own rents instead of the current direct payment arrangements.

- Enhanced right to buy arrangements have led to an increase in sales. For every property sold the HRA loses £1,800 income each year, which is £54,000 per property over the 30 year business model.

- Increase in legislative requirements for example, this year, changes to gas safety regulations requiring us to inspect all joints on a boiler flue have meant that on one estate where the flues are boxed in remedial work is costing around £200k.

- If interest rates increase from the current level of 4.35% to 5%, for example, in 2014/15 this would have a negative impact of £300k per year, which is £10.7 m over the 30 year Business Model.

(iii) Delayed Convergence by 5 Years

- With this option the pros and cons are very similar to Option (ii), i.e. no inflationary uplift. However, the impact on the 30-year Business Plan is less severe as the rental income is much higher with an average weekly rent increase of £2.31 compared to an increase of only £0.85 if no inflationary uplift was applied.

17. Clearly the best option in terms of the 30 years Housing Business Plan and stock investment is Option (i), whereby rent is increased by 4.4% in accordance with the self-financing buy out arrangements which were based on local authorities continuing with rent restructuring. This is the option traditionally supported by tenants who want continued high level investment in their stock and understand that this is only possible if rents increase.

18. The HRA has traditionally been in a healthy position because of prudent management and the flexibility to respond to change. The Welfare Reforms are going to be particularly challenging for the social rented sector and for our tenants and we are better able to support them if we have the funding available to prioritise support where it is needed the most. For those on very low incomes, Housing Benefit will be available and will increase in proportion to the rent increase.

19. Option (iii) and (ii) would be the options which reduced pressures on household budgets for those 27% of tenants who do not have rents covered by Housing Benefit, and in the current economic context is a factor Members may wish to consider. 41% of our tenants are over 62 years of age and are unaffected by the Welfare Reforms. Of those most are in receipt of Housing Benefit to cover any rent increase, leaving less than 500 to pay the full increase. 18% of tenants (961) are under 62 years of age and not in receipt of Housing Benefit to cover any rent increase. Of the remaining 41% of tenants under the age of 62 years and in receipt of Housing Benefit to cover the rent increase, over 470 have been identified as having one surplus bedroom and over 130 have two surplus bedrooms. In addition to the bedroom tax of 11% and 14 % of their rent respectively, they will also on

average be required to pay around £3 per week towards their Council Tax for the first time.

20. However, on balance, in the past tenants collectively have favoured protecting the long-term investment in the housing stock and that is why option (i) is recommended.

21. 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.

22. For 2013/14 our limit rent has been set by the DWP at £67.54 and this will increase each year in line with the government's model for rent convergence.

Self- Financing of Council Housing

23. Although the Housing Revenue Account is now Self Financing it is still a ring fenced account but the previous subsidy arrangements have been substituted with a one-off debt settlement

24. At **Appendix 1** there has been a substantial movement of £1.5m on the capital financing costs between original budget and projected out-turn, this is due to lower than budgeted interest rates as a result of moving to one debt pool and a decision not to repay existing subsidy debt because of the low interest rates described in paragraph 23.

25. As Council housing borrowing counts as public sector borrowing, Councils are not 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'.

26. 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.

27. The government still requires the payment to them of 75% of the net receipt from Right-to-buy sales. Local authorities 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

28. 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. The role of the warden's services has now changed to focus on housing related support where historically there was a care element to the role and the General Fund has made a contribution to the HRA towards these

costs. Due to these changes it is proposed to cease this contribution which amounts to £160K per annum. In order to achieve full cost recovery the weekly charge would need to increase from £11.74 to £15.71.Previously we have chosen to phase in such increases and it is proposed therefore that the charges are increased over a two year period, meaning the charge for 2013/14 would be £13.85 and the shortfall pooled within the HRA. Details are shown at Table 1 overleaf.

Table 1: Garage Rents and Service Charges

Description	Current Weekly Charge (12/13)	Proposed Weekly Charge (13/14)
	£	£
Garage Rents	6.34	6.48
Building Cleaning – Flats	1.56	1.57
Building Cleaning – Sheltered Schemes	3.07	3.11
Building Cleaning – Extra Care	9.64	9.78
Grounds Maintenance – General Housing	1.41	1.43
Grounds Maintenance – Blocks of Flats	1.41	1.43
Heating – Comprehensive schemes	11.46	11.46
Heating - Blocks of flats	1.08	1.10
Administration – Leaseholders	76.93	78.62
Furnishings and Fittings – Comprehensive Schemes	1.59	1.62
Furnishings and Fittings – Good Neighbour Schemes	0.71	0.73
Lifeline Response	5.06	5.09
Lifeline - Sheltered and Extra Care Housing	11.74	13.85
Pavement Crossings and Hard standings	3.40	3.46
Mid-day Meal – Extra Care (Residents only)	30.31	30.89
Mid-day Meal – Extra Care (Non-Residents only)	36.40	37.07
Furnished Tenancies - 1 bed flat	27.16	27.76
Furnished Tenancies - 2 bed flat	28.25	28.87
Furnished Tenancies - 2 Bed House	43.80	44.76
Furnished Tenancies - 3 Bed House	45.83	46.84
Furnished Tenancies - White Goods	5.91	5.98
Guest Rooms in Sheltered Schemes	73.50	75.25
Door Entry Systems	0.55	0.56
TV Aerials	0.16	0.16

29. The additional costs will be covered by Housing Benefits and where appropriate Supporting People grant for the 73% of tenants who are eligible.

Value for Money

30. We provide excellent value for money in respect of our management and maintenance costs. When benchmarked against our Comparators Group, data provided by CIPFA shows our management costs are £563 per property compared to the average of £735 and our repairs and maintenance spend is £680 compared

to the average of £826 per property. We continue to perform well on a number of value for money related indicators, for example we increased our rent collection performance this year from 97% to 98%. 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 new heating systems has been altered so that we now renew boilers every 15 years but pipe-work is only replaced every 30 years, resulting in an overall saving of £300k. Building Services are now completing more jobs in one visit and Lifeline Services have implemented a 24 hour shift working pattern for similar costs to the previous call out arrangements.

Budget Pressures

31. The Housing Revenue Account for 2013/14 will be under pressure from the impacts of the Welfare Reforms. Bad debt provision has therefore been increased from £150k previously to £250K but this will need to be carefully monitored.

Consultation

32. 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. Major areas of work include:-

    (i) Board members on the Repairs and Maintenance task and finish group continue to contribute to the action plan to identify improvements needed to the repairs and maintenance service. They have also agreed a new standard for void properties this year.

    (ii) The Sheltered Housing Group assisted in the development of the Supported Housing Strategy.

    (iii) The Streetscene Group continue to review the Council's performance and regularly provide feedback from estate inspections. They have been particularly involved in the introduction of wheeled bins.

    (iv) The Readers Panel have met regularly to approve various publications and letters to ensure they are easy to read and in plain English

    (v) Board members have visited Customer Services and shadowed staff to gain a better understanding of the services provided. Mystery Shopping has also been carried out in respect of the Housing Options Service and bulky household waste.

    (vi) Following the introduction of the Localism Act, Board Members have agreed a more in-depth scrutiny process to ensure services are high quality with good customer satisfaction levels and provide value for money

33. This report was considered by the Tenant's Board on the 11 February 2013. Board Members were very supportive of the proposed rent increases. They want to have similar or better standards than high performing housing associations who charge higher rents but in turn use the additional income to invest in their stock.   They are

also keen that we pay off debt where possible.

Financial Implications

34. 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.

35. 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 2013/14, 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.

36. He is also satisfied that the level of revenue balances in the Housing Revenue Account projected at 31 March 2013 (£2,038k) 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. This is higher than previously due to the HRA now having to create a capital replacement reserve for future development and improvement works.

Conclusion

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