

Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

Author:	Cabinet Member for Public Protection, Housing and Streetsmart (Delivery) Board Director, Service Delivery
Wards:	All
Locality Affected:	All
Parishes Affected:	All

1. Purpose and Reasons

- 1.1 To present the proposed rents, service charges and support charges for 2014/15 and the proposed Housing Revenue Account (HRA) budget for 2014/15.
- 1.2 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

2. Recommendations

The Cabinet is invited to recommend to the Council as follows:

- 2.1 The proposed average rent for Housing Revenue Account (HRA) dwellings for 2014/15 of £79.23 per week (52 week basis), which is an increase of 3.7%, be approved. This will be an average increase of £2.82 per week (52 week basis). The range of increases are shown in paragraph 3.12.
- 2.2 That officers seek authority from the Secretary of State to extend the permission for the use of the Housing Revenue Account for payments to the Council's tenants under the Discretionary Housing Payments scheme, to enable any underspend on the 2013/14 budget of £420k to be used in 2014/15, as detailed at paragraphs 3.17.
- 2.3 The housing related support charges for 2014/15 and service charges for 2014/15 as outlined in Appendix 2 are approved.
- 2.4 Leaseholder service charges are set for 2014/15 as shown in Appendix 3.
- 2.5 Based on the proposals set out within this report that the Housing Revenue Account (HRA) proposed budget 2014/15, shown in Appendix 4, be approved and that the HRA Capital Budget and Funding be approved as shown in Appendix 5.
- 2.6 That the draft 3 year capital projects and planned maintenance programme be approved at an indicative funding level of £16.8m (2014/15 prices) per annum for each of the years 2014/15 through to 2016/17 as shown in Appendix 6.

Further information on the subject of this report can be obtained from Paul Smith on Direct Dial No.463976, or Email psmith2@swindon.gov.uk.

Housing Revenue Account (HRA) - Rents and Charges 2014/15

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- 2.7 Rents charged on General Fund properties are increased by an average increase of 3.7% and the rents and charges for the David Murray John Apartments, as shown in Appendix 7, be approved.
 - 2.8 Rents charged for plots at the Hay Lane Residential Gypsy Site are increased by £1.74 per week (3.7%) to £48.74 per week (52 week basis) and the rents for workpens, as shown in Appendix 7, be approved.
 - 2.9 The charges for Private Sector Leased (PSL) accommodation for those accepted as homeless outlined in Appendix 7 are approved.
 - 2.10 Any underspend on the 2013-14 Housing Revenue Account is earmarked to fund additional works resulting from the abnormal amount of rainfall, commencing as soon as possible.

3. Detail

- 3.1 The Housing Revenue Account (HRA) is a statutory account set up in accordance with the Local Government and Housing Act 1989. This is a significant budget for the Council amounting to £47.6m of Gross Income in 2013/14 (a budget overview is provided at Appendix 1). The account is ring fenced and cannot be subsidised by the General Fund or vice versa.
- 3.2 The HRA contains all expenditure relating to the Council's landlord function of circa 10,500 dwellings, supported housing schemes, sheltered schemes, commercial premises and garages. Income is generated through rents, charges and interest received on balances.

Housing Revenue Account (HRA) Rents and Charges

- 3.3 Swindon's Housing Revenue Account (HRA) receives the majority of its income from the charges it levies upon its tenants. Tenants can pay up to 3 elements for their homes:
 - Rent - a charge for the occupation of a dwelling. Rents pay for the management and maintenance of the properties.
 - Service charge - additional services which may not be provided to every tenant, or which may be connected with communal facilities e.g. a caretaker service.
 - Support charge - additional services to help tenants maintain their tenancies i.e. the warden service in sheltered accommodation and the Homeline alarm system.

Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

Dwelling Rents and Capital Investment

- 3.4 The HRA Self Financing regime came into force on the 1st April 2012 which enabled the HRA to retain all revenue income generated locally instead of having to pay any surpluses back to the Government.
- 3.5 Under self-financing, the Council had to pay the Government £138.6m based on the assumptions made under a 30 year business plan model. The assumption around rents that generated this figure was that these would continue to increase in line with convergence which would generally be around 3% above inflation i.e. for 2014/15 this would be 5.79%.
- 3.6 Convergence guidance works as follows:
- 3.7 Every property has a target rent set based on a national formula that takes into account the value of the property as at January 1st 1999 and the number of bedrooms. This rent is increased by RPI +0.5% each year which is measured from September to September as per current Government rent guidance. This policy has been in place since 1999.
- 3.8 The actual rent being charged for the property is then compared with the target and the gap between the two determined.
- 3.9 Convergence expects the actual rent to increase by RPI +0.5% plus a share of the gap (up to a maximum of £2 per week). Thus if the gap between target and actual was £3.00 the rent would increase by RPI +0.5% + £1.50 (£3.00/2 years assuming target year is 2015/16). However if the gap was £7.00 then the cap would come into play and the increase would be RPI + 0.5% + £2.(£7.00/2 years = £3.50 but capped at £2)
- 3.10 The level of rent directly affects the amount of funding available for capital investment as demonstrated below. The higher the rental income then the more funding that is available for capital investment. If the 2013/14 investment programme is continued at its current level then a minimum of £16.4m (taking into account inflation) is required to ensure that the same level of work can be undertaken.

Provisional budget for 2014-15		£m
Rent (£43.0m) & other income		£48.553
Less Operational Costs	(£11.983)	
Repairs Service	(£10.146)	
Debt Interest	(£ 4.621)	
Available for investment		(£ 21.803)
Debt Repayment		(£ 5.000)
Available for Capital Investment		<u>£ 16.803</u>

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Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

Investment requirements

- 3.11 RAND Associates were contracted in 2011 to identify the HRA capital investment requirements for the HRA stock for the next 30 years. This included an assessment of the required investment in bathrooms and kitchens, heating, and structural repairs to the non-traditionally built stock, modernisation of sheltered housing. The total investment requirement is detailed in table 1 below, measured against the level of capital funding that would be available based on various levels of rent increase. This table shows a significant shortfall between available funding and that required under RAND recommendations of £7.9m in 2014/15, excluding an existing shortfall of £20.2m between 2012/13 and 2013/14.

Table 1: RAND Investment levels v Proposals

	12/13	13/14	14/15	15/16	16/17	17/18	18/19	TOTALS
	£m	£m	£m	£m	£m	£m	£m	£M
RAND Recommended	22.4	24.7	24.7	24.7	24.8	22.3	22.3	165.9
Approved Budget	11	15.9						26.9
Shortfall	11.4	8.8						20.2
Proposed Budget								
3.20%			16.5	16.7	17.5	18	19.4	88.1
3.7% (Recommended)			16.8	17.0	18.0	18.6	20.1	90.5
5.70%			17.3	17.7	18.6	19.3	20.9	93.8
SHORTFALL FROM								
3.7%			7.9	7.7	6.8	3.7	2.2	75.4
Total Shortfall to 18/19	11.4	8.8	7.9	7.7	6.8	3.7	2.2	48.5
Cumulative shortfall	11.4	20.2	28.1	35.8	42.6	46.3	48.5	

- 3.12 Table 2 below shows the effect of the different rent proposals on average rents, total rent income and the amount available to invest in homes. The recommended increase of 3.7% would result in rent increases between £2.12 and £4.35 per week (52 week basis). Average increases are shown in the table

Table 2:

Proposed Rent Increases	Average Rent 2014/15	Average Rent increase 2014/15	Total Rent 2014/15	Available for Investment 14/15
3.2%	£78.85	£2.44	£42.791m	£16.524m
3.7%	£79.23	£2.82	£43.031m	£16.802m
5.7%	£80.80	£4.39	£43.793m	£17.325m

- 3.13 The decision on the level of increase to 2014/15 rents affects not only on the amount available for 2014/15, but on all other years as is demonstrated in table 3 below. This is because the 2014/15 rent position is the starting base level for future years, even if no further increases were to be agreed beyond 2014/15. The

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Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

figures below assume rent increases from 2015/16 to 2018/19 to demonstrate the cumulative effect of the 2014/15 decision.

Table 3: Effect of 2014/15 Rent decision on total rent over 5 years

						5 Year	
	14/15	15/16	16/17	17/18	18/19	Totals	Var
	£k	£k	£k	£k	£k	£k	£k
3.2%	42,791	42,791	42,791	42,791	42,791	213,955	
3.7%	43,031	43,031	43,031	43,031	43,031	215,155	1,200
5.7%	43,793	43,793	43,793	43,793	43,793	218,965	5,010

- 3.14 As can be seen from the information in the tables provided above, a rent increase of 3.2% provides a similar level of funding to 2013/14, once inflation is taken into account.

Rent Proposals 2014/15

- 3.15 The rent increase is not just about balancing the 2014-15 budget, it is also about the medium to long term sustainability of the HRA business plan., The HRA business plan makes assumptions around operational costs, rent increases, debt charges and inflation in order to ascertain whether capital investment plans are affordable not just in the short term, but over the medium and long term (to 30 years). This longer term view also takes into consideration the significant investment that RAND recommends is required as detailed above at paragraph 3.11.
- 3.16 The current business plan also contains assumptions around losses of rents due to voids and bad debts, and the business plan makes an assumption (reviewed annually) that these will increase over the next few years due to the impact of welfare reform changes. In effect this reduces the anticipated total income available to the HRA and therefore future rent increases will need to take this anticipated loss of rent into account.
- 3.17 In addition, although RPI has been measured at 3.2% to the end of Sept 13 for 2014/15 rent setting purposes, the HRA business plan costs have been estimated to increase at an average of 3.5% for 2014/15 and beyond (other than HRA salary costs at 1% per annum) which immediately reduces the anticipated amount available for investment. Inflation assumptions used to build other Council budgets for 2014/15 include, electricity & gas 10%, water & insurance 5%, transport 4.5%, superannuation 4.4%, NNDR 4% and general contracts 3%.
- 3.18 The HRA 2013/14 budget is currently projecting an underspend on the in year revenue budget due mainly to unforeseen savings on staff vacancies due to on-going organisational review. However, due to the recent adverse weather conditions there is an increasing demand for roof repairs and making good of

Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

associated damage to tenants' homes. The winter conditions have also highlighted the vulnerability of certain grassed areas damaged by off road parking on wet ground. It is therefore recommended that any underspend on the Account is earmarked to fund additional works resulting from the abnormal amount of rainfall, commencing as soon as possible..

- 3.19 In 2013/14 the Council obtained permission from the Secretary of State to provide Discretionary Housing Payments Fund (DHP) of up to £420k through the HRA. A description of DHP is given below.

DHP could help top-up housing benefit if a household is facing hardship, including if they have been affected by recent housing benefit changes. A discretionary housing payment is not a long-term answer.

This funding is only for the benefit of HRA tenants to ensure that sufficient funding is available to support those affected by Welfare Reform. The original permission is valid for the financial year beginning 1 April 2013. Given that current forecasts indicate that it is unlikely that the full £420k will have been spent by 31st March 2014, authority is sought to write to the DCLG for permission to extend the arrangement into 2014/15 for the use of any unspent funds at year end.

Support and Service Charges

- 3.20 As part of rent setting last year all service charges were re-calculated to ensure that they fully recovered their costs, a policy which has continued this year. The main cost pressures this year have come from increases in the cost of utilities which are continuing to rise above the rate of inflation (Gas and electricity are predicted to rise by 8%-10%). These increases have to be passed on via increases in the service charges, full details of all service charges can be found in Appendix 2.
- 3.21 Since the consultations and reports were prepared for Housing Advisory Forum further work has been done on the allocation of costs between service and support charges in sheltered housing which has resulted in a change to the proposed charges. The total proposed charge in the consultation was £27.97 per week made up of service charge £21.78 per week and support charge £6.19 per week. The revised proposal is now £24.87 and £3.10 respectively although the overall total charge is unchanged at £27.97.

Leaseholder Service Charges

- 3.22 Leaseholders are recharged the full cost of providing services. The charges proposed for leaseholder are shown in Appendix 3.
- 3.23 It is proposed to introduce a charge for the costs of the administration involved in the resale of leases, to cover officer time in processing these applications.
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Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

Currently leaseholders are charged for the Councils legal fees, but not for other admin costs. The proposed charge is £150 per transaction and is included in Appendix 3.

Garage Rents and Parking Charges

- 3.24 Garage and parking space rents for tenants have been held this year due to the level demand as demonstrated by the level of voids. Cross over charges and premium parking provision have been increased in line with inflation. Details are shown in Appendix 2.

Consultation

- 3.25 The rent setting presentation explained the options available when setting the budget this year. 3 different rent options were presented these were:
- RPI only – a 3.2% increase.
 - RPI +0.5% – a 3.7% increase (Recommended)
 - Convergence – a 5.7% rent increase.
- 3.26 Two general rent consultation meetings were held (one of which was combined with Swindon Tenants Voice), the Tenants Association of Sheltered Housing (TASH), the Housing Advisory Forum and Leaseholder Link. An extract has also been circulated via ehousing and the housing Facebook page for comments. The main issues discussed were around the level of rent increases and the affordability for tenants, the effect of each of these options on the amount of capital funding for investment, the effect of welfare reform.
- 3.27 The recommendations from each of these groups were;
- Swindon Tenants Voice recommended that the rent should be increased in line with RPI i.e. a 3.2% increase.
 - TASH supported the officer's recommendation of a 3.7% increase.
 - The Housing Advisory Forum moved that there is an increase in line with inflation and the majority voted in favour.
 - Leaseholder Link had no specific comments.

Housing Revenue Account (HRA) Budget 2014/15

- 3.28 The HRA budget for 2014/15 is dependent upon the decisions Members make around changes to rents, service charges, support charges, and capital investment.

Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

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- 3.29 Appendix 4 shows the proposed HRA budget for 2014/15 assuming Members agree to the recommendations on rents and charges set out in this report. The following paragraphs outline the major movements (key variances) from the 2013/14 base budget to the proposed 2014/15 budget. This section will also bring to Members' attention the short term and medium financial implications and challenges facing Swindon's HRA.
- 3.30 The current HRA debt will stand at £140.5 million on 31 March 2014 and the average interest rate for this is 3.32%. Interest on this borrowing for 2014/15 is £4.66m (item 26, Appendix 4).
- 3.31 The budgeted cost of revenue repairs (item 3&4, Appendix 4) has been increased by £125k to £10.146m in 2014/15 to ensure the repairs team can undertake gas enforcement, non-traditional stock surveys, and stock condition surveys. This will ensure that essential repairs and maintenance, vacant property repairs and specialist services are carried out to provide an effective repairs service.
- 3.32 The proposed budget includes an increase in bad debt provision from 2.59% of rents to 3.5%, which has resulted in an increase in the provision of £400k (item 10, Appendix 4).
- 3.33 The HRA Capital Improvement Programme covers 3 major areas, these are
- Capital projects i.e. kitchens & bathrooms, insulation improvements etc.
 - Planned maintenance programme i.e. fencing, paths, electrical maintenance, heating etc.
 - Regeneration & acquisition / new build programme.
- 3.34 The capital projects and planned maintenance programme has been increased by £810k to £16.802m (item 1, Appendix 5). This reflects additional funding to address some of the items identified in the latest stock condition survey and will provide approximately 530 kitchens and 200 bathrooms as part of the on-going maintenance programme. The additional funding provided by the extra 0.5% increase will be to increase overall investment, including that in sheltered housing.
- 3.35 Currently the Right to Buy legislation has resulted in an increase in the number of properties being sold. However, due to current economic conditions and the changes in the discounts, the net receipt to the Council has reduced. It is anticipated that there will be an additional receipt available for investment under the Governments new Right to Buy mechanism of circa £0.5m per annum, although this is ring-fenced to new build, and/or acquisition of properties and must be match funded by the HRA.
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Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

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- 3.36 It is proposed to provide an additional £1m, on top of that budgeted for in 2013/14, to enable the purchase of 1 & 2 bedroom properties within the HRA estate areas, (item 2, Appendix 5). This will provide options for those tenants who need to downsize due to the introduction of the Welfare Reforms.
- 3.37 Any other new build and major regeneration programmes will be brought to Cabinet for separate approval and will take account of the Draft Housing Strategy 2015-25 which is planned to be brought to Cabinet in July 2014. Regeneration and new build opportunities can take advantage of the borrowing headroom available to the HRA.
- 3.38 A draft 3 year capital programme is attached at Appendix 6. The purpose of recommending a 3 year programme rather than the usual 1 year is to enable better forward planning and provide certainty. Any future decisions around rent increases will increase the base amount available. It is recommended that the indicative level of spend outlined in Appendix 6 be approved.
- 3.39 The proposals contained in this report will produce a balanced HRA budget in 2014/15.

General Fund Rents and Service Charges

- 3.40 It has been agreed in previous year that the rent increases for the residential properties owned by the General Fund (including the David Murray John Tower - DMJ) would follow the same rent setting approach as used for HRA properties. Appendix 7 shows the proposed service charges for the DMJ and Christopher House (Flats over the shops at Marlowe Avenue) and it is recommended that these be approved.

Hay Lane Residential Gypsy Site

- 3.41 There are 37 plots at Hay Lane and a rent of £47.00 per week was charged in 2013/14. It is proposed to increase this charge for 2014/15 in line with other general fund properties to £48.74 per week, an increase of 3.7%.
- 3.42 Workpens at Hay Lane vary in size and each has a separate charge. It is proposed that the charges are increased by 3.7% for 2014/15 and it is therefore recommended that charges for Hay Lane outlined at Appendix 7 be approved.
- 3.43 The Council does not charge for its transit Gypsy and Traveller site so as to encourage illegal encampments to move on. No change to this is proposed.

Homelessness Contributions

- 3.44 The level of homelessness contributions for private accommodation are linked to the Local Housing Allowance that is payable for each size of property. The details of these charges are shown on Appendix 7 but should be noted that these

Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

charges are subject to any changes to Local Housing Allowances made by Government.

4. Alternative Options

- 4.1 The setting of local authority rent guidance is based on a formula provided by Central Government, although the Council has the ability to set the rents at any level it decides. It does however need to be mindful of its duty as a landlord to provide and maintain a decent standard of accommodation for its tenants and for future generations in need of affordable housing.
- 4.2 The Council has chosen to use a level of rent increase that is lower than that suggested by the formula. However this will still enable the properties to be maintained at the decent homes standard and make some headway to the recommended programme of works as shown at paragraph 3.11, such as sheltered housing improvements and extending the kitchen and bathroom programmes.
- 4.3 The Council could choose a much higher rent than that given under the formula; this could cause severe financial hardship for some of our poorest tenants.
- 4.4 Alternatively the Council could set a much lower rent increase; this would have a direct effect on the ability of the HRA to maintain its properties to the decent homes standard. Any reduction in rent increase would need to coincide with a simultaneous reduction in costs and this would reduce the service provided to tenants.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 These have been reflected in the body of the report.

Legal and Human Rights Implications

- 5.2 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 There are no such direct implications.

Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

Diversity Impact Assessment

- 5.4 A thorough Diversity Impact Assessment was carried out in support of the HRA report in 2012. This has been updated annually to reflect the changes in rents and identified no adverse impact for any protected characteristic.
- 5.5 Setting of local authority rents is largely determined by Government formula. Any significant departure from the recommendation will not be in the best interests of tenants. Significant changes would constitute an adverse impact as the Council is proposing increases in charges that relate to Government guidelines. Tenants who are eligible for Housing benefit will continue to be able to claim their full entitlement under the national scheme, and support to enable them to do this is provided both by housing officers and benefits advisers. Housing staff are aware that a large proportion of Council tenants are on low incomes and that these increases in charges could cause hardship in some cases. Any tenants who feel that proposed increases in housing and support costs will cause them hardship will be able to seek advice from Tenancy Sustainment Officers and their local Neighbourhood Housing Officers as well as from the Citizens Advice Bureau.
- 5.6 Information regarding Housing Benefit and the support available from Housing will be provided to all tenants when they receive notification of new rents for 2014/15. Tenants who fall into rent arrears will be managed according the Council's Rent Arrears Policy for which a Diversity Impact Assessment has also been completed.
- 5.7 The additional funding that will be provided by the higher rent increases will be of direct benefit to all tenants as it will ensure that the housing stock is maintained in both the short and long term. This will promote the corporate priorities of
- "Work with residents to create well cared for neighbourhoods" and*
- "Together, find new ways to reduce vulnerability and improve health for all"*

6. Consultees

- 6.1 The Board Director, Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers and Appendices

- 7.1 Appendix 1 – Proposed HRA Budget Overview 2014/15.
- Appendix 2 – Service charges for 2014/15
- Appendix 3 – Leaseholder charges for 2014/15
- Appendix 4 – Detailed HRA Budget 2014/15

Housing Revenue Account (HRA) - Rents and Charges 2014/15

Cabinet

Date: 5th February 2014

Appendix 5 – Proposed HRA Capital Budget 2014/15

Appendix 6 – Proposed HRA 3 year Capital Programme

Appendix 7 – Proposed HGF Rents & Service Charges 2014/15

8. Key Decision/Decision in Forward Plan

- 8.1 This is not a key decision to be made by Cabinet because the final decision on setting Housing Revenue Account rents and charges for 2014/15 and approving the HRA budget for 2014/15 are to be made by full Council on 24th February 2014. At this meeting, Council will also be asked to approve the General Fund rents and charges for the David Murray John Tower, the Hay Lane Residential Gypsy Site and homelessness contributions.
- 8.2 This item is included in the Cabinet Work Programme and Forward Plan for February 2014.