

REGENERATION, COMMUNITY AND CULTURE OVERVIEW & SCRUTINY COMMITTEE

31 JANUARY 2013

HOUSING REVENUE ACCOUNT CAPITAL AND REVENUE BUDGETS 2013/14

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Summary

This report presents the Housing Revenue Account (HRA) capital and revenue budgets for 2013/14

It provides details of proposed rent and service charges levels for 2013/14.

The comments of this Committee will be collated for onward despatch to the Cabinet on 12 February 2013.

1. Budget and Policy Framework

- 1.1 In accordance with the constitution, Full Council approval is required to carry out an annual review of rents and notify tenants not less than 28 days prior to the proposed date of change. The Council is required under the Local Government and Housing Act 1989 to ensure that the Housing Revenue Account does not fall into a deficit position.

2. Background

- 2.1 The new 'self-financing' regime for the HRA came into place on the 1 April 2012 and the previous subsidy regime and the complex calculations that accompanied it have now gone. This report concentrates on proposals for 2013/14 including:

- Rent
- Services charges
- Performance management – voids, welfare reform and debt collection
- Expenditure assumptions
- Housing repairs
- Borrowing & Headroom.

3. Rent

- 3.1 The Government policy to progress rent convergence between local authorities and registered social landlords remains in place under self-financing with a target date of April 2015. The underlying principle is that actual rents are required to converge with formula rents (based on beacon values). This is progressed by formula rents increasing by Retail Price Index (RPI) as at September 2012 + 0.5% whilst actual rents can rise in excess of this by a maximum of £2 per week, until formula rent is reached.
- 3.2 Appendix A attached details the proposed rent increases by property type. The proposals are in line with government guidance as detailed above and include:
- Increases to target rent where the proposed increase falls within the upper transitional limit of RPI (2.6%) + 0.5% + £2.00.
 - Increases to the maximum increased allowance where the upper transitional limit does not allow an increase to the target rent level.
- 3.3 The proposed increases above will give an average rent increase of £2.90 per week or 3.75%.
- 3.4 Rents under this arrangement are exclusive of service charges. The rent restructuring initiative requires service charges to be disaggregated from the rent calculation, charged separately and is based on actual expenditure.
- 3.5 The 2012/13 rent charge for garages is £305 per annum for Council tenants and £406 per annum plus VAT for other residents. It is proposed that garage rents will increase by 2.6% from April 2013 and the new charge will be £313 per annum for Council tenants and £417 per annum based plus VAT for other residents. It is estimated that this will generate an additional income of approximately £3,573 over the projected income for 2012/13, based on current letting rates.

4. Service Charges

- 4.1 Service charges for 2013/14 will be calculated using estimated costs based upon actual charges for previous years. Guidance states that, whilst increases should be confined to inflation plus 0.5%, it is also recommended that the cost of providing services to tenants should be fair and fully recovered.
- 4.2 As part of the budget report for 2012 it was highlighted that there were several service charge areas where cost is not being fully recovered. In order to try and achieve full cost recovery by 2014/15 it was agreed that above inflationary increases would be applied. All service charges with the exception of the warden service charge are expected to reach this target. The warden service charge requires above inflation increase of 15% for the next seven years in order to fully recover costs. The proposed charges for 2013/14 are based on this principle.
- 4.3 For services incurring a charge that are under the direct control of the Housing Revenue Account, a further option will be to consider whether current levels of service could be adjusted to reduce costs towards the levels of income currently generated, subject to appropriate tenant and leaseholder

consultation. Appendix B details the projected percentage increases required against each type of service charge in 2013/14, and a comparison of the average weekly service charge levies from 2012/13 to those proposed for the next financial year. The projected deficit on Sheltered Management is based on the permanent staffing structure. During 2012/13 a new management trial structure has been in place, which has had a positive impact, by reducing the deficit to approx £60,000 from £184,000. This trial arrangement has yet to be formulised.

4.4 Some charges are funded through a housing related support grant, which has only been confirmed until 30 September 2013. Thereafter the charges will be payable by the tenants unless further housing related support grant is awarded.

4.5 The average service charge increase for 2013/14 excluding Housing Related Support eligible charges is 5% or £0.38 per week.

5. Performance Management

5.1 The financial management of the Housing Revenue Account is directly linked to key performance in a number of operational areas (void management, rent collection and arrears recovery).

5.2 Void Management

5.2.1 There is a direct correlation between the time a property remains void and the rent foregone.

5.2.2 For 2012/13 a target for void property rent and service charge loss was set at 0.72% of the rent debit, equating to £87,339. Quarter 3 reported performance was at 0.52%, which would produce a financial rent loss of around £64,000 if performance remains at this level for the year.

5.2.3 For 2013/14 the provision for void rent and service charge loss has been set at 0.54% or in financial terms £69,000 for the year. This is based on a void turnaround target of 20 days.

5.3 Rent Collection/Bad Debt Provision

5.3.1 The collection rate for rent and service charges and the performance in managing rent debt is critical to the financial position of the Housing Revenue Account and has a direct impact on the amount of bad debt provision that has to be set aside.

5.3.2 It has been calculated, as at 5 November 2012, that the collection level of rent and service charges for 2012/13 will be 99.65%, which will result in current tenant rent arrears at 1 April 2013 of around £285,000. However, it is projected that total arrears, both current and former tenants, will be in the region of £845,000. During 2012/13 officers have improved mechanisms for pursuing

former tenant debt. This has included identifying a dedicated officer to lead the process and work with the Council's benefits and revenues team to utilise their own debt collection agency. This is having a positive impact on recovery of some debt.

5.3.3 As at 31 March 2013, the projected requirement for bad debt provision will be £645,000.

5.4 Welfare Reforms

5.4.1 The impact of Central Government's plans to radically reform the welfare benefits system will have a direct impact from April 2013 on the income to the HRA and of its tenants.

5.4.2. Size criteria (Under-occupation)

5.4.2.1 From April 2013 tenants of working age in receipt of Housing Benefit residing in properties, which they under-occupy will see cuts to their benefit depending on the number of bedrooms they under occupy.

5.4.2.2 For tenants under-occupying a property by 1 bedroom they will see a reduction in Housing Benefit by 14%, and for those under occupying by two bedrooms or more they will see a reduction of their benefit by 25%.

5.4.2.3 Analysis has been undertaken and identified 231 Medway Council tenants currently under-occupying by one bedroom, 60 by two bedrooms and one by three bedrooms. This is likely to amount to approximately a loss of £170,000 per annum in benefits to the tenants for which they must now pay rent charges to the council.

5.4.3 Non-dependent deductions

5.4.3.1 Further changes to the non-dependent deductions have been calculated at £76,000 for the forthcoming financial year. Non-dependent deductions relate to Housing Benefit payments made to families, where one or more of the dependents of the main tenant, are working or receiving benefits in their own right and a reduction in Housing Benefit is made to take account of their income.

5.4.4. Direct Payments – Housing Benefit Payments

5.4.4.1 As part of these reforms, from October 2013 all new tenants of working age will receive their Housing Benefit directly from the Department of Work and Pensions (DWP), and then have to pay the Council their rent, (currently, the payments from Housing Benefit come directly to Housing onto the rent accounts with no transaction costs incurred).

At present, 64.5% of our rent is received directly from the Housing benefits amounting to £7.259 million of which 29.1% is paid to pensioners and 70.9% is paid to working age tenants. In 2013/14 a potential £4.452 million of benefits may be paid directly to tenants; however direct payments will be phased in over the next four years for existing tenants.

5.4.4.2 As a result of Housing Benefit being paid directly to working aged tenants and Welfare Reform changes, it is estimated that the cost to the Council to collect this rent from tenants will incur additional costs, in terms of transaction payments, of approximately £35,000 to Medway Council.

5.4.4.3 Much work is underway by the HRA team to prepare both the service and tenants for these radical changes. A Members briefing evening is scheduled for 20 February 2013 to give more information on the impact and plans are underway to address some of these challenging issues.

5.4.5. Direct Debit

5.4.5.1 The cheapest method of collecting rent is by Direct Debit and since September tenants have had the ability to pay their rent by Direct Debit. Over 130 tenants now pay their rent by direct debit. An incentive scheme through a monthly prize draw to encourage take up of this scheme is to be launched early in 2013. The implementation of Direct Debit is one action to improve further rent collection rates.

6 Housing Revenue Account Expenditure

6.1 Generally, all expenditure, will remain at 2012/2013 levels for 2013/2014 to reflect the current economic climate in line with the Medium Term Financial Plan.

6.2 The only exceptions to this will be contracts that are subject up to the annual uplifts, the introduction of the minimum revenue payment (MRP) and costs associated with welfare reform and staffing, which has been adjusted to reflect the new staff structure approved by members.

6.3 The cost of housing benefits under rent rebate limitation is the responsibility of the Housing Revenue Account. For 2013/14 it is projected that the cost of this will be just over £167,000.

6.4 Capital Financing Costs are charges relating to the debt incurred by the Housing Revenue Account for capital schemes and include the charges relating to the additional debt incurred by the move to the self-financing regime.

7. Housing Repairs

7.1 Housing repairs expenditure covers both planned and responsive maintenance, some of which is capital funded. Government guidelines have stated that local authorities should be moving away from responsive repairs and towards increased planned maintenance expenditure to achieve a spend ratio of 30:70.

7.2 Whilst the detailed plan for capital works within 2013/14 is currently being revised in conjunction with the asset management strategy, it has been projected that the total cost of HRA capital works (including disabled adaptations) will be £5 million This projected expenditure will be funded by way of:

- £3.336 million Major Repairs Allowance/Major Repairs Reserve
- £1.664 million Contribution from HRA Working Balances

7.3 Based on the proposed draft combined capital (£5 million) and revenue (£2.677 million) work programmes the financial split in 2013/2014 is likely to be:

- Responsive Maintenance £1.955 million
- Planned/Capital Maintenance £5.722 million

This split will equate to a 25:75 spend ratio for 2013/14.

7.4 The revenue expenditure budget funds all general day to day repairs, emergency repairs, repairs to void properties, lift maintenance, estate improvements and repairs programme and central heating maintenance.

7.5 The proposed capital budget of £5 million is split into planned maintenance and disabled adaptations with budgets of £4.750 million and £0.250 million respectively.

7.6 Any underspend to the 2012/13 capital programmes will be added to the 2013/14 capital programme.

8. Housing Revenue Account Working Balance

8.1 There is a requirement to maintain a working balance to safeguard against unplanned and unavoidable increases in expenditure or losses of income. At 1 April 2012 the working balance stood at £4.835 million. For a number of years the actual HRA balance has exceeded the recommended guideline of £450,000.

8.2 The latest monitoring for Quarter 3 predicts a balance at 31 March 2013 of some £4.111 million, which is similarly well in excess of the guideline but given that the balance of reserves is also to cater for future investment, it is appropriate to recommend a minimum balance and it is proposed to increase this for business planning purposes to £750,000.

8.2 The draft 2013/14 Housing Revenue Account budget, as presented at Appendix C, produces a projected surplus of £1.059 million for the year and after allowing for a contribution to fund the capital programme of £1.664 million, the revenue balance is forecast to be £3.506 million at 31 March 2014.

8.3 The projected working balance is substantially greater than the minimum required. However the 30-year Housing Revenue Account business plan is likely to require significant revenue support towards the capital programme, specifically within the next few years to enable catch-up repairs and maintain all properties at the Decent Homes Standard.

9. New Self Finance Arrangements - Borrowing & headroom

9.1 The price for the 'freedom' from the old subsidy system was the acceptance of a new debt burden of £19.144 million, which brought the total borrowing debt carried by the HRA to £41.146 million.

9.2 In 2012 the HRA began a programme of repaying its debt by a minimum revenue payment (MRP.) This payment is calculated at 2% on the HRA outstanding debt. At the 1 April 2013 the borrowing debt carried by the HRA will be £40.323 million and the 13/14 MRP repayment will be £0.806 million assuming members agree to the proposal to commence MRP repayments in 2012/13 at Cabinet on 12 February 2013.

9.3 Each year the Council is required to calculate the 'Capital Financing Requirement', which forms the councils ceiling for prudent borrowing. For the HRA, the government set each local authority a borrowing cap limit and in Medway's case this amounts to £45.846 million. The difference between the borrowing cap and the actual amount of borrowing is the 'headroom' for further borrowing which can only be used on creating, improving or maintaining HRA assets. At 1 April 2013 the "headroom" available for borrowing will be £5.523 million, subject to commencement of repayment of MRP (as set out in paragraph 9.2)

9.4 Officers have identified projects which could utilise the "headroom":

- A programme of re-modelling and improvements to sheltered housing
- Potential to develop affordable housing units on HRA owned underused garage sites
- Potential to acquire and improve existing properties, which would also benefit the Council's Regeneration Strategy.

9.5 Officers seek member approval to develop these three proposals further with a view to submitting a more detailed report later in the year.

10. Consultation

10.1 The Housing Act 1985 requires the issue of written notification to each tenant a minimum of four weeks in advance of the date that the increase becomes operative. For 2013/2014 the latest date for posting the notices is 26 February 2013.

10.2 The council has developed a resident engagement strategy detailing how we will consult and engage with tenants in partnership with tenants' forums. In order to support this commitment, a meeting to present the proposals within this report to tenants was held on 17 January 2013.

11. Risk Management

Risk	Description	Action to avoid or mitigate risk
Housing Revenue Account Balance	There is a requirement to ensure that the balance on the Housing Revenue Account does not fall into deficit and a business plan is required to model this need over a thirty-year period. The major factor with the potential to impact on this requirement is the level of expenditure required for housing repairs.	A stock condition survey has been undertaken that will provide a sound basis on which to model future repairs investment. Regular monitoring by senior officers of the budgets take place and actions agreed to avoid deficit occurring.

12. Financial and Legal Implications

- 12.1 The financial implications are contained within the body of this report.
- 12.2 Under Section 76 of the Local Government and Housing Act 1989, the council is required, in advance of the financial year, to formulate proposals which satisfy the requirement that, on certain stated assumptions; the Housing Revenue Account for that year does not show a debit balance. The council is obliged to implement those proposals and from time to time to determine whether the proposals satisfy the 'break even' requirement. If not, then the Council shall make such provisions as are reasonably practicable towards securing that the proposals, as revised, shall satisfy the requirement.
- 12.3 Under Section 24 of the Housing Act 1985, the council can make such reasonable charges as it determines for the tenancy or occupation of its houses. The council is obliged, from time to time, to review rents charged and make such changes, as circumstances may require. In exercising this function (determining and fixing rent), the council should have regard to the rents charged in the private sector
- 12.4 A decision to increase rent constitutes a variation of the terms of a tenancy. Under Section 103 of the Housing Act 1985, in respect of secure tenancies, a notice of variation (specifying the variation and date on which it takes effect) must be served on each tenant. For non-secure tenancies (excluding introductory tenancies), a notice must be served that complies with Section 25 of the Housing Act 1985.

13. Recommendations

- 13.1 The Committee is asked to recommend to Cabinet::
- (a) The proposed revenue and capital budgets for 2013/2014, inclusive of an average rent increase of £2.90 per week (based upon 50 collection weeks and equating to an average increase of 3.75%);

- (b) Service charges for 2013/14 reflect the costs incurred in providing that service, where possible, and that where costs are not fully recovered, the uplift is such that costs can be fully recovered by 2014/15, (excepting the Wardens Service Charge as set out in 4.2), using above inflation increases to do so as per Appendix B to this report. The average increase will be 5% or £0.38;
- (c) Officers to develop proposals for utilising headroom with the intention to submit a further report later in the year;
- (d) To approve the repayment of debt based on a minimum revenue payment of 2% on outstanding debt.

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Background papers

Housing Revenue Account Capital and Revenue Budget 2011/12

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=7088>

AVERAGE RENT INCREASES BY PROPERTY TYPE (50 WEEKS)

Property Type	No of Properties	Actual Rent 2012/13	Actual Formula Rent 2012/13	Proposed Rent 2013/2014	Formula Rent 2013/2014	Average Increase 2012/2013 to 2013/2014	Average Percentage Increase 2012/2013 to 2013/2014
Bedsit Bungalow	45	£62.89	£63.76	£65.35	£65.74	£2.46	3.9%
Bedsit Flat	67	£59.98	£60.36	£62.16	£62.23	£2.19	3.64%
1 Bedroom Bungalow	169	£71.22	£72.23	£73.74	£74.47	£2.52	3.54%
1 Bedroom Flat	492	£69.54	£69.96	£72.05	£72.12	£2.50	3.60%
2 Bedroom Bungalow	11	£80.88	£80.88	£83.39	£83.39	£2.51	3.10%
2 Bedroom House	509	£84.80	£84.86	£87.48	£87.49	£2.68	3.16%
2 Bedroom Flat	535	£77.45	£78.12	£80.47	£80.54	£3.01	3.89%
3 Bedroom Bungalow	2	£90.78	£90.78	£93.60	£93.60	£2.82	3.11%
3 Bedroom House	773	£94.41	£94.75	£97.65	£97.68	£3.24	3.43%
3 Bedroom Flat	110	£85.61	£88.19	£89.69	£90.92	£4.08	4.76%
4 Bedroom House	28	£102.55	£102.60	£105.78	£105.78	£3.22	3.14%
5 Bedroom House	1	£106.13	£117.19	£111.50	£120.82	£5.37	5.06%
HIL Bedsit for the Disabled	9	£58.54	£58.54	£60.35	£60.35	£1.81	3.09%
HIL Bedsit	182	£58.54	£58.54	£60.35	£60.35	£1.81	3.10%
1 Bedroom HIL	72	£65.97	£66.05	£68.06	£68.09	£2.09	3.16%
2 Bedroom HIL	5	£74.69	£76.69	£78.24	£79.06	£3.55	4.76%
3 Bedroom HIL	1	£83.21	£84.76	£87.38	£87.38	£4.17	5.01%
1 Bedroom HIL Bungalow	17	£68.30	£68.62	£70.53	£70.74	£2.23	3.27%
Overall Average	3,028	£77.53	£78.71	£ 80.43	£ 81.15	£2.90	3.75%

HOUSING REVENUE ACCOUNT - SERVICE CHARGES SUMMARY (50 Weeks)

	Average Weekly Service Charge 2012/2013	Proposed Percentage Increase for 2013/2014	Proposed Average Weekly Service Charge 2013/2014	Projected Weekly Variation 2012/2013 to 2013/2014	Projected (Surplus)/Deficit 2013/2014
	£	%	£	£	£'000
Eligible for Housing Benefit					
Adult Services Facilities	15.82	3%	16.29	0.47	0
Estate Services (Caretaking)	4.32	15%	4.97	0.65	59
Communal Electricity	1.09	(13%)	0.95	(0.14)	(0)
Grounds Maintenance	0.62	0%	0.62	0.00	(0)
Sheltered Helpline	2.23	15%	2.57	0.34	6
Linked Garage	6.09	2.6%	6.25	0.16	0
Sheltered Management	14.21	15%	16.35	2.13	184
Window Cleaning	0.33	0%	0.33	0.00	0
Not Eligible for Housing Benefit					
Cooker	0.64	0%	0.64	0.00	0
Fridge	0.64	0%	0.64	0.00	0
Communal Heating	7.98	7.5%	8.58	0.60	0
Water Rates	3.62	10%	3.98	0.36	0
Housing Related Support Eligible Charges					
Community Alarm	9.65	0%	9.65	0.00	0
SP Helpline	2.65	0%	2.65	0.00	0
Sheltered Support	5.61	0%	5.61	0.00	0
Average	5.03	4%	5.34	0.30	n/a

N.B. - Cells with an entry of N/a denote services where there is no specific attributable expenditure against which a surplus/deficit can be assessed. The levels for these charges have been set using the best information relating to anticipated costs.

HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2013 - 2014

Description	Budget 2012/13			Q3 Forecast 2012/13			Proposed Budget 2013/14		
	Exp £000's	Income £000's	Net £000's	Exp £000's	Income £000's	Net £000's	Exp £000's	Income £000's	Net £000's
HRA Working Balance B/F			(4,835)			(4,835)			(4,111)
Housing Management Total	136	0	136	82	0	82	0	0	0
Service Improvement Total	252	0	252	229	0	229	252	0	252
Client Side Team Total	1,587	(22)	1,565	1,530	(11)	1,519	1,582	0	1,582
Community Development Total	88	0	88	79	0	79	88	0	88
Tenancy Services Total	1,436	0	1,436	1,491	0	1,491	1,613	0	1,613
Housing Maintenance Total	1,884	0	1,884	1,871	0	1,871	2,168	0	2,168
Homes for Independent Living Total	733	(2)	731	601	(2)	599	700	(2)	698
Estate Services Total	539	(4)	535	514	(4)	510	574	(4)	570
Housing Benefits Total	154	0	154	178	0	178	167	0	167
Capital Financing Costs Total	4,960	(13)	4,947	5,779	(13)	5,765	5,856	(13)	5,843
Rent Income Total	0	(13,052)	(13,052)	0	(13,222)	(13,222)	0	(13,895)	(13,895)
Other Income Total	0	(144)	(144)	0	(178)	(178)	0	(144)	(144)
Total Housing Revenue Account	11,770	(13,238)	(1,468)	12,354	(13,431)	(1,076)	13,000	(14,059)	(1,059)
Revenue Contribution to Capital Expenditure			1,800			1,800			1,664
HRA Working Balance C/F			(4,504)			(4,111)			(3,506)