

02 February 2011	Appendix 1
Cabinet	
HOUSING BASE ESTIMATES, CAPITAL PROGRAMME AND RENTS AND SERVICE CHARGES 2011/12	
Portfolio Holder: Councillor A Smith, Cabinet Member for Housing	
Report Author: Michael Jones, Group Finance Manager	
Accountable Head of Service: Sean Clark, Head of Corporate Finance	
Accountable Director: Martin Hone, Director of Finance and Corporate Governance.	
Purpose: The report sets out the position regarding the Housing Revenue Account (HRA) for 2011/12 and outlines the recommendations for the setting of the rent, service charge increases and other charges from 4 April 2011. The report also makes recommendations on the level of rents and other charges relating to traveller's sites.	
Wards affected: All	Key decision: Yes
This report is public	

1. RECOMMENDATIONS:

Cabinet is asked to recommend to Council to:

- 1.1 Note that the Housing Revenue Account (HRA) is estimated to break even as at 31 March 2011;**
- 1.2 Agree that inflationary costs pressures and business development growth (paragraph 4.2, Table 2) be included in the base budget for 2011/12;**
- 1.3 Agree a 5.24% increase in de-pooled service charges (see paragraph 4.7.2);**
- 1.4 Increase domestic rents by an average of 6.69%, with an upper threshold limit of £3 per week, with effect from 4 April 2011 (see paragraph 4.7.6 Table 4);**
- 1.5 Agree a 2.5% increase garage rents (Paragraph 4.9.1);**
- 1.6 Increase central heating charges by 3.3% being the prevailing rate of inflation (see paragraph 4.9.2);**

- 1.7 **Increase the level of Travellers' Site rents by 6.2% with effect from 4 April 2011 (see paragraph 4.10.4); and**
- 1.8 **Agree a minimum level of reserve balances of £1.7 million**
- 1.9 **Agree the capital program for 2011/12 (Para 4.12)**

2. INTRODUCTION:

The report identifies changes within the base estimates between 2010/11 and 2011/12. Increases to the budget will need to be funded through savings or an increase to current rent levels, for which the options are detailed in **Table 5**. Recommendation needs to be made to full Council regarding the setting of the rent levels for dwellings, garages and travellers sites from 4 April 2011. The report also sets out the position regarding the Housing Revenue Account for 2011/12, and makes proposals for business development.

3. BACKGROUND:

What are the Base Estimates?

The base estimates represent the cost to the Council of continuing to operate the existing level of service. The HRA is a landlord account that currently manages 10,315 dwellings.

3.1 The major areas of income are:

- Rents and Service Charges - Paid by tenants
- Other Income - Income from leaseholder service charges and other miscellaneous sources

3.2 The major items of expenditure on the HRA are:

- Major Repairs Allowance - this sum is used to finance the cost of major works as part of the HRA capital programme
- Repairs and Maintenance - responsive repairs and planned maintenance
- Salaries - the cost of employing staff
- HRA Subsidy Payment - this sum is paid either by or to Government to support the cost of housing nationally and is calculated for each local authority separately. As a result of the calculations used to set housing subsidy levels, Thurrock Council is in a position of negative subsidy. This is due, in the main, to the figure which the government uses for guideline rent i.e. the level at which the government notionally sets rent levels, which is higher than the combination of the allowance for Management and Maintenance, Major repairs and interest on debts. This results in a negative subsidy for Thurrock i.e. payment must be made to the Exchequer as part of the national funding

regime for Housing. The cost of servicing an authority's debt in relation to its housing stock also has a significant impact as to whether an authority contributes into, or receives income from, the national subsidy system.

- 3.3 In considering the increase in rent levels, Members will need to consider Government guidelines in relation to rent restructuring. Consideration will also need to be given to the impact of inflation on council house rents, the relationship between the level of rent charged and the service provided to tenants and the overall financial position of the HRA. The five rent setting options, which are being brought for consideration within the report, have been calculated in accordance with rent restructuring guidance.

4. ISSUES AND OPTIONS:

PART A - BUDGETS

4.1.1 Housing Revenue Account Budget 2011/12

Before considering the budget position in 2011/12, it is necessary to review the position in 2010/11. This will give an indication of the anticipated level of the HRA balance carried forward into new financial year.

Table 1	Forecast Outturn 2010/11 £'000
HRA - Forecast Reserve Position 2010/11	
HRA Opening Balance as at 1 st April 2010	2,410
Forecast end of year variance - see 4.1.2 below	0
Estimated c/f 31 March 2011	2,410

- 4.1.2 The balance available for revenue purposes at the start of 2011/12 is estimated to be £2.410 million. This level of balance is based on the forecast that the HRA will achieve a breakeven financial position in 2010/11.

Preparation of 2011/12 Base Budgets

- 4.2 A summary of the increases between the 2010/11 and 2011/12 budget estimates is summarised in **Table 2** below.

HRA 2011/12 Budget Increases	
	£'000
Inflation	380
Essential Health and Safety Works	827
Negative Housing Subsidy	1,995
Less One off growth in 2010/11	(659)
2011/12 New Growth / Business Development	720
2011/12 Gross increase to HRA Budget	3,263

4.3 The main reasons for the variances are explained as follows:

4.3.1 Inflation has been applied to the budgets for which it is applicable, and incremental increases within staffing budgets have also been applied.

4.3.2 The essential health and safety costs comprise a number of statutory requirements, relating in the main to legionella and asbestos works, have been included in the 2011/12 base estimate.

4.3.3 Negative Housing Subsidy. This is detailed in **Table 3**, and reflects the payment to central government for the housing service nationally. This is the effect of a complex calculation based on the “notional HRA” and Thurrock is a contributor to the Exchequer under the national arrangements. The final 2011/12 determination results in an upwards adjustment to the budget of £1.995 million. In 2011/12, Thurrock Council will pay an estimated £11.533 million into the national HRA subsidy system

4.4 **Business development**

4.4.1 Business development budget items, which result in additional expenditure of £0.720 million, are summarised below. It is recommended that these proposals be approved and be incorporated into the HRA estimates for 2011/12. These have been split in two categories, unavoidable items and service improvements.

Unavoidable – On-going

Housing call out / standby payment	£ 10,000
Dog waste enforcement	£ 20,000
Upgrade of mobile communications	£ 5,000
Prudential borrowing payments	£ 95,000
Sheltered housing internet connections	£ 16,000
Specialist IT works	£ 10,000

Total **£156,000**

Service improvements – Ongoing

Housing officers trainee scheme	£ 40,000
Tenant panel	£100,000
Tenant profiling	£ 30,000
Increase in grounds maintenance Service level agreement	£324,000
Increase in fencing budget	£ 70,000

Total **£564,000**

Total Business development **£720,000**

4.4.2 An assessment of the likely risks associated with HRA operational activity for the financial year 2011/12 has been undertaken. This includes allowing for contingencies within the main areas of income collection, and expenditure. The result of this is a level of reserves set at £1.7 million.

4.5 The Housing Subsidy System

4.5.1 A summary of the governments 2011/12 final housing subsidy determination is detailed in **Table 3** below:

Summary of Draft Subsidy Determination			
	2011/12 Draft Subsidy Determination	2010/11 Final Subsidy Determination	Movement between years
Number of Dwellings	10,322	10,344	0.12%
Management Allowance (per dwelling)	570	557	2.27%
Maintenance Allowance (per dwelling)	1,179	1,155	2.06%
Major Repairs Allowance (per dwelling)	744	722	2.88%
Guideline Rent (per dwelling)	3,766	3,546	5.84%
SCFR – Supported Debt	778,709	933,093	-19.83%
Debt Management Expenses	50,964	49,327	3.21%
Mortgage Interest	2,515	2005	20.3%
Total Subsidy Payable	11,533,326	9,774,435	15.25%

- (a) The guideline rent assumed by the Government has increased by £4.23 per week per dwelling, from £68.19 to £72.42 or 5.84%. This does not in itself cause a rent increase, but the resultant loss of subsidy will have to be financed by a rent increase or reductions in expenditure. The Government's formula uses the September 2010 RPI figure, which was 4.6%.
- (b) The subsidies for management and maintenance allowances have been increased by 2.27% and 2.06% respectively in 2011/12.
- (c) The Major Repairs Allowance (MRA) has been set at £743.80 per property amounting to £7.678 million in 2011/12. This represents an increase of 2.88% in 2011/12. The MRA is used to fund major repairs and improvements included in the Housing Capital Programme and cannot be used to meet revenue expenditure or alleviate the rent increase.

PART B – RENTS AND DEPOOLED SERVICE CHARGES

- 4.6.1 The Council agreed to introduce the new formula based system with effect from April 2005. This was the subject of a detailed report to Cabinet on 19 January 2005. The proposal detailed below for increases to the rents are a direct consequence of following the national rent restructuring guidance with the aim to achieving convergence. The convergence target is to ensure that tenants of any social landlord, living in similar properties in similar areas will pay a similar level of rent.
- 4.6.2 As part of the 2008/09 rent setting report to Cabinet, the decision was taken to depool the service charge element from the overall rent charge. The recommendation within this report sets out six possible rent setting options, which are detailed within the tables below. The service charge calculation for 2011/12 results in a weekly average charge of £3.82, which remains at a consistent level across each of the six proposals, as it is used as a mechanism to recover the cost of the “depoled services”, those being caretaking and concierge.
- 4.6.3 Consultation has been held with tenants regarding the rent increase options. Meetings were conducted on 13 January 2011. At this consultation, tenants were taken through the rent setting process, and discussed the correlation between an increase in rent and the additional income that is generated as a result for service improvement. At both meetings, tenants voted in favour of the £3 rent increase limit. This was taken on a majority vote of 9 of 15.

4.6.4 Cabinet is asked to consider the six rent increase options that are detailed in **Table 4** below.

Table 4						
Rent Setting Options for 2011/12						
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Average Weekly Increase	6.16%	6.23%	6.40%	6.69%	6.94%	7.14%
Weekly increase Limit	£2	£2	£2	£3	£4	£5
Average Weekly Rent	£72.21	£72.26	£72.37	£72.57	£72.74	£72.88
Average Weekly Service Charge	£3.82	£3.82	£3.82	£3.82	£3.82	£3.82
Total Weekly Charge	£76.03	£76.08	£76.19	£76.39	£76.56	£76.70
Average Stock Level	10,313	10,313	10,313	10,313	10,313	10,313
Estimated Gross Rent Debit	£40,773,064	£40,799,878	£40,858,868	£40,966,124	£41,057,291	£41,132,369
Voids @ 1.5%	£611,596	£611,998	£612,833	£614,492	£615,859	£616,986
Proceeds	£2,224,168	£2,250,580	£2,308,685	£2,414,332	£2,504,131	£2,578,084

4.6.5 The percentage increases in the average weekly rents, shown in **Table 5** above, are reached by adjusting the maximum weekly increase from £2 per week in options 1, 2 & 3, £3 per week in option 4, £4 per week in option 5 and £5 per week in option 6.

4.6.6 In concluding the recommendation to Cabinet, consideration has been given to the level of resources required in order to implement the business improvement items and meet inflationary and health and safety demands. Therefore, having considered the merits of each option, Cabinet is asked to recommend **Option 4** to Council to be effective from 4 April 2011.

4.7 De-pooled Service Charges

4.7.1 As part of the overall rent calculation, and in order to follow rent restructuring, it is recommended that the de-pooled service charges (caretaking and concierge) are increased by 5.24%. This is derived from the application of the formula, which includes the RPI increase of 4.6%.

4.8 Other Charges

4.8.1 Garage rents

The current weekly charges for garage rents are £7.76 and £8.99 per week. The total rent income budget in respect of this in 2010/11 is set at £0.843 million. However, the current forecast suggests that this level of income will not be achieved. In previous years, the charges have been increased in line with the average weekly dwelling percentage, but given the current projections on income and voids, it is felt more prudent to recommend an increase of 2.5%, as not to discourage additional rental of garages.

4.8.2 Heating charges

There are 144 sheltered housing dwellings in the Council stock for which landlord controlled central heating is provided. There are two weekly charges; £4.85 for 119 dwellings and £7.72 for 25 ex Greater London Council dwellings which are heated by gas. Cabinet is asked to recommend an increase in the weekly charge of 3.3%, which is the rate of consumer price inflation for November 2010.

4.9 Overall strategy

4.9.1 Having regard to the considerations outlined above, the impacts of the proposals within this report are set out in **Table 5** below.

Table 5	
HRA – 2011/12 Budget Changes	
	£'000
Gross Budget Increase (Table 2)	3,263
Financed by:	
Increase in dwelling rent income (Table 5)	(2,413)
Adjustment to Leaseholder service charges budget	(50)
Utilisation of HRA reserve surplus	(310)
Adjustment to HRA reserve	(325)
Deficit / (Surplus)	165
Reserves forecast at 31 March 2011	2,410
Reserves forecast at 31 March 2012	1,506

4.10 Travellers Site Rents

4.10.1 Gross operational expenditure for 2011/12 is estimated to be £0.188 million. This is the gross cost of service that the Council must recover through rent, and excludes utility charges which are not supported by Housing Benefit payments.

4.10.2 As a guideline for setting the level of rents and charges, the Council has must ensure a minimum of a break even position in respect of Net Operating Expenditure (i.e. before Asset Rentals).

4.10.3 The base budgets for travellers' sites for 2011/12 have been reviewed and it is expected that a net operating deficit of £0.015 million will arise before consideration of the rent increase. This deficit is largely due to the fact that this is a demand led budget, and estimates have been made using future projections and prior year outturn.

4.10.4 In order to recover the £0.015 million budget shortfall, an increase of 6.2% would need to be applied to the charges, and Members are asked to agree this as per recommendation **Para 1.7**.

4.11 Capital Program

4.11.1 In addition to the revenue budget and rent charges, Members are also asked to approve the proposed HRA Capital program. The detailed schemes are set out in Appendix 1.

4.11.2 **Table 6** below details the financing of the 2011/12 proposed HRA capital program

TABLE 7	
Funding Source	2011/12 Best £000's
Major Repairs Allowance	7,678
Major repairs reserve	2,200
Prudential Borrowing	1,000
Total Resources	10,878
Bids Received	(10,649)
Total Bids	(10,649)
(Deficit)/Surplus	229

5. IMPACT ON CORPORATE PRIORITIES:

5.1 The management and operation of the HRA strives to supports vulnerable people. The 30-year business plan sets out to ensure there is value for money within the Housing service.

6. OVERVIEW AND SCRUTINY:

6.1 The key points in this report have been the subject of a presentation to Overview and Scrutiny Committee.

RELEVANT POLICIES

Section 76 Local Government and Housing Act 1989

FINANCIAL IMPLICATIONS

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Financial implications are included within the paragraphs above.

The Council's responsible financial officer is required to comment on the robustness of the budget proposals and the level of reserves. These comments have been included in his formal statement attached to the 2011/12 General Fund and Capital report.

LEGAL IMPLICATIONS

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The Council, under the 1989 Local Government and Housing Act have a legal obligation to set a budget for the Housing Revenue Account. Notices of any increases have to be sent to tenants 28 days in advance of the new charges coming into effect.

DIVERSITY & EQUALITY IMPLICATIONS

The Council has a statutory duty under the Race Relations Act 2000 (Amendment) and the Disability Discrimination Act 2005 to promote equality of opportunity in the provision of services. The Council should note that in considering the options set out in this report, due regard should be given to the equality implication of any strategy, policy or function of the Council. This means that the Council must ensure that all policies and local strategies promote the inclusion of all groups and equality of opportunity. This report would also benefit from an Equality Impact Assessment (EIA). This will ensure that any negative impact is identified and revised as appropriate. This is a statutory requirement placed on the Council.

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OTHER IMPLICATIONS none specific

BACKGROUND PAPERS

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