

Lead Officer(s): Directors of Housing Management and Resources

Wards: All

Agenda Item:- 5

Subject: HOUSING REVENUE ACCOUNT RENT, SERVICE CHARGE,  
GARAGE RENT AND BUDGET SETTING – 2012/13

## 1. DRAFT RECOMMENDATIONS

The Panel is asked to comment on:

- 1.1 Rent increases for all Council tenants for 2012/13, in line with the National formula for social housing rents. The average rent increase will be 8.0%;
- 1.2 That the full cost of services provided to those tenants who receive caretaking, grounds maintenance and bulk refuse collection services are recovered via tenants' service charges, this being achieved with a 6.1% increase;
- 1.3 Charges for garage and parking space rents increase by 8%;
- 1.4 Heating charges for Council tenants remain unchanged, see detailed in **Appendix 2**;
- 1.5 To recommend to the Council the approval of the budget for the Housing Revenue and Capital Accounts for 2012/13.

## 2. EXECUTIVE SUMMARY

- 2.1 This report provides information on the proposed rent increase for Council housing tenants for the financial year 2012/13 and other charges for tenants for 2012/13.
- 2.2 The report also provides information on the Housing Revenue Account (HRA) budget for the financial year 2012/13 (**Appendix 1**).

## 3. HOUSING REVENUE ACCOUNT

- 3.1 The HRA is the main business account for the housing service. It continues to be a ring-fenced account, funded primarily from tenants' rents. The services provided to tenants, for example: responsive repairs, management services and caretaking are paid for from this account.

- 3.2 Long term financial planning is based on the HRA 30 year business plan which is updated annually to reflect actual expenditure, changes in stock numbers and financial projections.

### **HRA Self-Financing**

- 3.3 The Localism Act received Royal Assent in November 2011 and included the replacement of the national HRA subsidy system with a system of self financing from 1 April 2012.
- 3.4 Croydon's Housing Revenue Account (HRA) currently makes annual payments into the national housing subsidy system. In 2011/12 this will amount to £16.2m. The subsidy system will be replaced by an allocation of the national housing debt, known as the self financing valuation. For Croydon this means taking on additional debt of £224.9m which will need to be repaid over 30 years by the HRA.
- 3.5 The 'valuation' is based on 30 year subsidy calculations for Croydon, discounted to a current value. Rather than make an annual subsidy payment the Council will borrow money to make a one off payment to Government. This loan will be financed and repaid from the HRA. Essentially, rather than an annual system that redistributes rental income there will be a one off redistribution of national HRA housing debt.
- 3.6 The 30 year calculation is based on governments assumed levels of income and expenditure requirements for each stock retaining local authority over the next 30 years. The spending needs are significantly higher than those in the current subsidy system and government believes that this approach to costs will give all local authorities more money to spend on managing, maintaining, improving and increasing their stock than currently.
- 3.7 After self financing is introduced the financial position of the HRA will be more predictable and provide a stable basis for long term planning.

## **4. HRA Budget – 2012/13**

- 4.1 The attached Appendix 1 provides a draft budget for the HRA for 2012/13.
- 4.2 The main changes proposed to the HRA for 2012/13 are identified below. The budget will ensure that existing services are maintained and allows for an increased level of investment in the repair and improvement of homes.
- 4.3 **Increases in Rent**
- As in previous years the rent increase for Council Tenants has been set in accordance with the National Social Rents policy (Government's Rent Restructuring guidelines). The self financing settlement assumes that the Rent Restructuring guidelines are followed.
  - Under current legislation, rents are being increased to the Formula Rent, with the aim of converging the levels of council rents with those of housing association rents by 2015/16. Both rent and service charges are covered by housing benefit.

- The rent increase for 2012/13 has therefore been applied according to Rent Restructuring Guidelines. Rent and service charge increases are limited to retail price index (RPI) at September 2011 + 0.5% + £2. The September 2011 RPI was 5.6%.

#### 4.4 Negative Subsidy

- Under self financing there is no negative subsidy in 2012/13. This change has been incorporated in the calculation for Appendix 1.

#### 4.5 Service Charges

- The unpooled service charge for caretaking, grounds maintenance and bulk refuse collection will increase in line with the rent restructuring guidelines (excluding the additional £2). The charges for 2012/13 will therefore be:

- Caretaking – £7.26pw
- Grounds maintenance and refuse collection – £1.88pw

#### 4.6 Heating Charges

- Only a small number of tenants use communal heating systems and are charged a fixed weekly amount for the gas they use. Apart from the Handcroft Road Estate all other schemes are sheltered schemes for elderly people. The way in which Croydon purchases energy changed in 2009 and as a result heating charges will not be changed from 2011/12. See Appendix 2 for details on weekly heating charges.

#### 4.7 Garages and Parking Spaces

- The rents for garages and parking spaces in 2012/13 will increase in line with dwellings rents by 8%.

### 5 Draft housing investment programme

- 5.1 The table below sets out the summary of proposed expenditure in 2012/13 compared with 2011/12. In total, the resources for all purposes – responsive repairs, major repairs and improvements, and measures to increase housing supply, have increased by £11.029m to £41.062m.

**Table 1**

| <b>Housing Supply</b>                   | <b>2011/12<br/>£000</b> | <b>2012/13<br/>£000</b> |
|---|-------------------------|-------------------------|
| Assisted Private Purchase Scheme (APPS) | 250                     | 500                     |
| Special Transfer Payments               | 180                     | 250                     |
| Larger Homes                            | 100                     | 100                     |
| New Build Council Housing               | 2,100                   | 3,750                   |
| <b>Sub-Total</b>                        | <b>2,630</b>            | <b>4,600</b>            |
| Repair and Improvements                 | 14,212                  | 23,271                  |
|   |                         |                         |
| <b>Total capital expenditure</b>        | <b>16,842</b>           | <b>27,871</b>           |
|   |                         |                         |
| Responsive and Cyclical Repairs Budgets | 13,191                  | 13,191                  |
| <b>Grand Total</b>                      | <b>30,033</b>           | <b>41,062</b>           |

### 6 Draft Repair and Improvement Programme

- 6 It is proposed that the annual repairs and improvement budget, which is used for maintaining homes at the decent home standard and for other major works to our stock such as external decorations, will be £23.271m, an increase of £9.051m since 2011/12. The Government's decent homes target – that 100% of social homes should meet the standard by 31 March 2011 – was met on time for the council's stock. We will continue to invest in our properties to ensure they are maintained at this standard over time.
- 7 The proposed resources for responsive and cyclical repairs will remain at £13.191m. The total cost of responsive repairs was increased in 2011/12 partly due to the increased number and cost of repairs and partly due to a realignment of work between responsive repairs and programmed works. The current level of funding is sufficient to meet the repairs requirements and it is proposed that this budget remains at 2011/12 levels.

## 7 Housing Supply

- 7.1 The housing revenue account has traditionally been used to fund a number of supply initiatives to increase the council's housing stock or make better use of the existing stock. These supply measures will enable the council to meet demand from homeless households as well as from tenants who need to move because of overcrowding or other reasons.
- 7.2 The council has had in place a small new-build programme since 2008. The latest phase (Phase 2) is projected for completion in March 2011 and is providing 70 new homes, bringing the grand total to date of 102. Self-financing would allow for a modest new-build programme over the next few years. It is proposed that £3.75m is allocated to new development although this includes a contribution of £0.25m from non-HRA sources such as the new homes bonus.
- 7.3 The Assisted Private Purchase Scheme budget will increase to £0.5m from the current £0.25m. This scheme assists qualifying council tenants to purchase a home in the private sector. The special transfer payments scheme, which provides financial help to under-occupying tenants who move to smaller homes, would increase from £0.18m to £0.25m.

## 8. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

### 8.1 Revenue consequences of report recommendations

|                    | Medium Term Financial Strategy |         |           |           |
|--------------------|--------------------------------|---------|-----------|-----------|
|                    | 2011/12                        | 2012/13 | 2013/14   | 2014/15   |
| HRA Budget         |                                |         |           |           |
| Current Budget     | 71,294                         | 76,816  |           |           |
| Effect of Decision | 71,294                         | 76,816  | Not known | Not known |
|                    | 0                              | 0       |           |           |

- 8.2 The financial considerations are contained in the main body of the report and a high-level summary of the Housing Revenue Account for 2012/13 is provided at Appendix 1.
- 8.3 Although the council is borrowing an additional £224.9m, the loan is at a fixed low rate of interest, meaning the HRA will not be susceptible to changes in interest rates. The main risk areas in the Housing Revenue Account are the responsive repairs and programmed works budgets. A well-established monthly monitoring process is in place to assist in the management of expenditure in these areas. There is also a risk that there will be an increase in the level of arrears as a result of the rent increase, combined with the changes in the housing benefit under the government's welfare reforms. Mitigation of this impact is dealt with in paragraph 12 below.
- 8.4 The development of financial plans for the Housing Revenue Account has involved the consideration of a range of options for investment in Council homes including further investment in existing stock as well as the building of new homes.
- 8.5 The Housing Revenue Account 30 Year Business Plan Model has been updated to reflect the self financing settlement and will be reviewed and updated every 12 months.

(Approved by Paul Heynes, Head of Finance - Department of adult services and health and housing)

## **9. COMMENTS OF THE COUNCIL SECRETARY AND SOLICITOR AND MONITORING OFFICER**

- 9.1 The Solicitor to the Council comments that under the Housing Act 1985 (the Act) the Council has the power to determine reasonable charges for its tenancies and leases, and is required by the Act to review these from time to time and to make such changes as circumstances may require.
- 9.2 In accordance with the Act the process for varying the rent and charges for secure tenancies and leases is determined by the terms of the tenancy agreement or lease, while for non-secure tenancies section 25 specifies the procedure to be followed. The Council is required to give tenants' written notice of the proposed changes to their rental.

(Approved by: Jessica Stockton for and on behalf of the Director of Democratic and Legal Services, Council Solicitor and Monitoring Officer)

## **10. HUMAN RESOURCES IMPACT**

- 10.1 There are no immediate Human Resource considerations for LBC staff arising from this proposal.
- 10.2 (Approved by: Michael Pichamuthu, HR Business Partner, on behalf of Pam Parkes, Director, Human Resources & Organisational Development)

## **11. CUSTOMER IMPACT**

- 11.1 The HRA budget for 2012/13 includes a rent increase of 8.0%, and increases in service charges of 6.1%. Charges for rent and service charges are eligible for Housing Benefit.

## **12. EQUALITIES IMPACT**

- 12.1 The increase in rent of 8.0% will have an impact on current tenants. The increase is in line with the National Social Rent Policy which was introduced to keep rents affordable and comparable across the social housing sector. By adhering to the National Social Rent Policy tenants are protected from excessive rent increase by the limits and caps imposed by those guidelines and the full increase is eligible for Housing Benefit. This rent increase will ensure the HRA is properly funded in 2012/13.
- 12.2 Mitigation of the impact of the rent increase on tenants who are not in receipt of housing benefit will be in the form of advice on welfare benefits, budgeting and debt management from both the income officers responsible for rent collection and the four welfare rights advisers dedicated to advising council tenants in order to ensure that people claim benefits to which they are entitled and maximise their available resources, for example through reducing their heating bills.
- 12.3 The effect of self-financing and the rent increase is a higher level of investment in new housing supply measures and in improving the council's existing stock which will have a positive impact on many groups with protected characteristics because they are more dependent than average on social housing.

## **13. ENVIRONMENTAL IMPACT**

- 13.1 New homes funded by the council are subject to regulatory requirements in terms of scheme design and protection for the environment. All new council homes will be built to Level 4 of the Code for Sustainable Homes.
- 13.2 The Housing Department's Energy and Environmental Strategy 2008-2012 is a key investment priority within the repair and improvement programme. This strategy sets out clear targets for the reduction of CO<sub>2</sub> emissions and to improve affordable warmth for residents through improved insulation and installation of central heating.

## **14 CRIME AND DISORDER REDUCTION IMPACT**

- 14.1 There are a range of measures within the council's repair and improvement programme that support the council's wider objective to improve community safety. These include installation of security entry door systems to flats, environmental improvements including CCTV and improved lighting, and a targeted security door programme.

## **15 HUMAN RIGHTS IMPACT**

15.1 There are no human rights considerations arising from this report.

## **16 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

16.1 The information contained in this report will be accessible as part of the Council's Publication Scheme maintained under the Freedom of Information Act, while information held by the Council supporting the report may also be accessible under that Act subject to consideration of any relevant exemptions.

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Background Documents: None

## Housing Revenue Account 2011-12

## Appendix 1

| -   | Original<br>Budget<br>2011-12<br>£,000 | Draft<br>Budget<br>2012-13<br>£,000 | Increase/<br>(decrease)<br>£,000 |
|---|--|-------------------------------------|----------------------------------|
| <u>EXPENDITURE</u>  |  |                                     |                                  |
| Management - General  | 15,529                                 | 21,556                              | 6,027                            |
| Management - Special  | 8,344                                  | 7,562                               | -782                             |
| Maintenance and Repairs   | 13,191                                 | 13,362                              | 171                              |
| Major Repairs Allowance   | 12,042                                 | 16,035                              | 3,993                            |
| Capital Financing   | 4,968                                  | 11,865                              | 6,897                            |
| Revenue Contribution to Capital Outlay                              | 800                                    | 6,186                               | 5,386                            |
| Provision for Doubtful Debts  | 250                                    | 250                                 | 0                                |
| Payment clawed back by the Government                               | 16,171                                 | 0                                   | -16,171                          |
|   | 71,295                                 | 76,816                              | 5,521                            |
| <u>INCOME</u>   |  |                                     |                                  |
| Dwelling rents and Service Charges                                  | 67,661                                 | 73,212                              | 5,551                            |
| Garage rents  | 1,336                                  | 1,390                               | 54                               |
| Other Charges   | 2,290                                  | 2,206                               | -84                              |
| Interest on Council Mortgages                                       | 8                                      | 8                                   | 0                                |
|   | 71,295                                 | 76,816                              | 5,521                            |
| DEFICIT / ( SURPLUS ) B/F   | -800                                   | -1,200                              | -400                             |
| DEFICIT / ( SURPLUS ) C/F   | -1,200                                 | -1,600                              | -400                             |
| Average Rent ( 50 Week year ) including unpooled<br>Service Charges | £92.22                                 | £99.59                              | £7.37                            |
| Numbers of properties   | 14,024                                 | 14,093                              | +69                              |
| -<br>% Increase including unpooled Service Charges<br>Increase      | 69.40%<br>£2.07                        | 5.57%<br>£0.28                      |                                  |