

## WEST DUNBARTONSHIRE COUNCIL

### Report by the Executive Director of Housing, Environmental and Economic Development

Council: 27 January 2011

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**Subject: Housing Revenue Account (HRA) Estimates 2011/2012**

#### **1. Purpose**

**1.1** The purpose of this report is to provide Members with sufficient information to allow them to agree:-

- the level of weekly rent increase for 2011/2012; and
- the level of HRA prudential reserves for 2011/2012.

#### **2. Background**

**2.1** Since September 2010 discussions have been ongoing with tenant and resident groups in relation to the Housing Revenue Account Estimates for 2011/2012. The first draft estimate issued to the tenant groups in September 2010 intimated an average weekly rent increase of 4.5%, which is in line with the Council's approved Business Plan.

**2.2** In preparing these estimates, which result in a proposed rent increase of 4.5%, the following factors have been taken into account:

- Nil inflation has been assumed on all budget lines;
- A 3% turnover saving has been applied to employee costs;

These factors are consistent with the approach taken to the General Services estimates.

#### **3. Standard Delivery Plan/Delivery of the Scottish Housing Quality Standard (SHQS) by the year 2015**

**3.1** A critical factor for setting rents for 2011/2012 and future years is to ensure that the Council has the resources available to meet the SHQS by the year 2015 and that it maintains this standard beyond that date.

**3.2** The Council's updated Business Plan recommends a 4.5% weekly rent increase for 2011/2012 and that this level of rent increase is recommended up to and including 2015/2016.

**3.3** It should be noted that the 30 year business plan for reaching and maintaining the SHQS has been prepared on the basis that there will be fluctuations in inflation over the period of the plan.

#### **4. Rent Re-modelling**

**4.1** At its meeting on 6 January 2010 the Housing, Environment and Economic Development Committee approved the introduction of the new rent model based on property size, property type and general quality.

**4.2** The Committee also agreed the new rent model be implemented with effect from 1 June 2010, and that, in order to facilitate the transition to the new model, a £3 cap would be applied to ensure that no tenant would require to pay more than £3 per week as a consequence of the introduction of the new rent model and that this £3 cap would apply for a maximum period of 3 years.

**4.3** All tenants who were due a rent reduction as a consequence of the new rent model had the reduction applied in full with effect from the date of implementation, i.e. 1 June 2010.

**4.4** The new rent model adopted by the Council has 25 standard rents compared to the previous rent structure which had over 299 standard rents.

**4.5** Year 2 of the capping arrangements commences from Monday 30 May 2011 (the closest Monday to 1 June 2011) and at this date a total of 388 tenants will still require the £3 cap which will smooth the transition for these tenants towards paying the full re-modelled rent.

**4.6** Members will note that the annual rent increase will be introduced as from Monday 4 April 2011 (the Monday closest to 1 April 2011) and the rent increases due to rent re-modelling will be introduced as from Monday 30 May 2011 (the Monday closest to 1 June 2011).

#### **5. Comparison of 2011/2012 with 2010/2011 Estimates**

**5.1** There are a number of important comparisons which require to be drawn to the attention of Members.

##### **5.1.1 Employee Costs**

Employee costs have reduced by £179,910. This reflects the impact of the restructuring of the housing service implemented in 2010/11.

##### **5.1.2 Property Costs**

Property costs have reduced by £75,260. This is attributable to the anticipated reduction in the Council's insurance premium.

### **5.1.3 Supplies Services and Admin Costs**

There is a small reduction of £4,740. This is primarily due to reductions in supplies of computer consumables and general supplies.

### **5.1.4 Support Services**

The recharge to the HRA for central support costs has reduced by £56,770. This reflects the impact of restructuring within the central services - in particular finance, personnel and ICT - implemented during 2010/11.

### **5.1.5 Other Expenditure**

Other expenditure has increased by £4,000. This is due to an increase in the budget for rent abatements granted to tenants to £45,000

### **5.1.6 Reallocated Salaries**

The amount of employee costs reallocated from the HRA to other General Services and Capital accounts has reduced by £121,230. This is a consequence of the overall lower employee costs mentioned in 5.1.1 above.

### **5.1.7 Repairs and Maintenance**

There has been an increase in the Repairs and Maintenance budget of £407,190. The main reasons for this increase are as follows:-

#### **a) Jobbing Repairs/Transfer to HRA Capital**

Jobbing repairs have increased by £233,280. This increase allows for more private contractor repairs which the HMTA cannot undertake (£30,000) and more void house security (£42,000). The remainder of the increase represents the uplift in rates due to the in-house contractor under the terms of the contract. There is, however, an increase in the element of capital work of £97,000 so the net increase in the revenue budget is £136,280.

#### **b) Other Maintenance - Gas, Lifts, CCTV etc.**

This budget has increased by £142,330. This mainly due to an uplift in rates under the gas maintenance contract.

c) Other Repairs inc. Special Uplifts

This budget has increased by £16,830. Although there are several increases and decreases the main reason for the increase is a greater provision for decant costs.

d) Close Cleaning

The 2010/11 budget contained a budget of £41,000 for close cleaning. During 2010/11 there has been an evaluation of this service both in terms of its scope and the standards expected from the service. Tenants and Residents Groups have been informed of the outcome of this evaluation and their comments were sought on our proposals. It is the intention to re-tender shortly and with expected variations to the specifications within the contract, as a result of tenant consultation, it is anticipated that the costs will be greater than at present. For this reason provision of £100,000 has been included in the budget for 2011/12.

e) Recoveries

This budget has been reduced by £50,000. While recoveries from insurance claims have been held constant it is felt prudent to reduce the expected recoveries from rechargeable repairs in light of the current financial climate.

#### **5.1.8 Rents - Un-let Period (Houses)**

The budget has reduced by £129,430. This is primarily due to continued improvement in void house performance.

#### **5.1.9 Loan Charges**

Loan charges have increased by £590,710. This reflects the additional borrowing costs for the increased levels of net capital expenditure planned to support the delivery of the Scottish Housing Quality Standard. Increased capital expenditure is essential if the Council is to satisfy the obligation to meet the Scottish Housing Quality Standard by 2015. This course of action is required by the Standard Delivery Plan approved by Council in October 2009.

The increased borrowing will be accommodated within the authorised prudential limits that will be presented to Council for approval within the Annual Treasury Strategy.

#### **5.1.10 House Rent**

The budgeted rental income from houses has reduced by £507,390. This reflects the continuing reduction in the number of council houses as a result of council house sales (55 per annum) and the ongoing removal from the letting pool of those properties agreed at the Housing, Environment and Economic Development Committee in September 2009.

#### **5.1.11 Revenue Interest**

This budget has been reduced by £47,000 as interest accruing to the HRA is anticipated to be lower as a result of the prolonged period of low interest rates.

#### **5.1.12 Balance Brought Forward**

During the 2010/11 financial year £50,000 of the HRA Reserve was applied. The budget as presented at Appendix 1 does not utilise any of the HRA Reserve.

#### **5.1.13 Other Income**

This budget has been reduced by £58,000. Within "Other Income" there is a subsidiary budget line reflecting the transfer of property costs to General Services accounts from the HRA. There will, however, be a lower reallocation of property costs from the HRA in 2011/12 following the transfer of Anti-Social Behaviour staff from Alexandria Area Housing Office to Leven Valley.

### **6. Consultation**

**6.1** The Council is committed to tenant consultation and two rent consultation meetings were held, the first one on 28 September 2010 and the second one on 23 November 2010. The first meeting was attended by 5 tenant/federation groups and 3 tenants on the Register of Interested Tenants and the second meeting was attended by 6 tenant/federation groups and 2 tenants on the Register of Interested Tenants.

**6.2** A presentation (see appendix 2) was made to the tenant/federation groups on Tuesday 28 September 2010, which highlighted the following issues:

- Key issues for the coming year including the Tenant Communication Strategy, the Tenant Satisfaction Survey, the Common Housing Register, the Local Housing Strategy and the Housing Inspection Improvement Plan Update.

- Key improvement trends including:
  - the improvement in the average re-let time which was 23 days compared to 38 days in April 2010 (the Scottish Average is 41 days),
  - the improvement in the percentage of rent lost due to voids which was 1.76% compared to 3.15% in April 2010
  - the average time to inspect and repair empty homes in high demand areas which was 12.7 days compared to the target time of 14.5 days; and
  - the average time to assess housing applications which was 6 days against the target time of 14 days.
- A comparison of the Council's 2010/2011 average rent to that of the other 25 Scottish Housing Authorities which shows West Dunbartonshire as the ninth lowest.
- The need to increase rents to deliver the investment required to meet the Scottish Housing Quality Standard and improve services to tenants.
- Details of the draft 2011/2012 HRA budget.
- A proposed rent increase of 4.5% (an average of £2.35 a week on a 52 week basis and £2.60 on a 47 week basis).

**6.3** At the rent consultation meeting held on 23 November 2010, tenant groups provided verbal feedback, the general consensus being:

- Tenant groups were not in favour of the 4.5% increase mainly because they did not see any improvement in the service provided.
- Tenant groups did not see any improvement in their estates.
- Tenant groups did not think that they are getting value for money for the rent that they pay.
  
- Tenant groups expressed their concern that the Housing Repairs Trading Account surplus in its entirety sits within the General Fund and their view is that a proportion should be transferred to the HRA Reserve Fund.

**6.4** The West Dunbartonshire Tenants and Residents Organisation (WDTRO) have submitted written feedback, the details of which are as follows;

- Any rent increase at this time is a financial burden for tenants as wage rises are either frozen or well below 4.5%. Those tenants on fixed incomes, such as pensioners, would see their income reduced and if the proposed changes to Housing Benefit are implemented, then those in receipt of benefit could also suffer financially.
- WDTRO also expressed the view that tenants are not getting value for money from their rent money, as in their view rental income currently collected by the Council is not being used for the full benefit of the Housing Revenue Account and the Housing Investment Programme.
- WDTRO also stated that in their view the outcome of the rent consultation meeting held on 23 November 2010 was that tenants and their representatives stated that they were not in favour of the proposed rent increase as they felt that services were not improving, housing was having to pay £1.5m for stock transfer and rents did not reflect value for money due to the DLO surplus being paid to the General Fund.

**6.5** In order to promote further tenant consultation, a leaflet outlining the proposed rent increase was delivered to every tenant and, as a result, feedback has been received from 11 individual tenants in the form of telephone calls, emails and letters.

**6.6** All 11 tenants have clearly stated their objection to the proposed 4.5% increase and many expressed their concern that in a 12 month period (from April 2010 to April 2011) their rent will have increased on three separate occasions, (the April 2010 inflationary increase, the June 2010 rent re-modelling increase and the April 2011 inflationary increase).

## **7. People Implications**

**7.1** There are no personnel issues.

## **8. Financial Implications**

**8.1** To fund the budget and support the investment requirements of the Scottish Housing Quality Standard an average weekly rent increase of 4.5% is required. (£2.35 on a 52 week basis and £2.60 on a 47 week basis). This is supported by the 30 year business plan.

## **9. Risk Analysis**

**9.1** The key driver for determining rents for Council properties must be the Standard Delivery Plan approved in principle in October 2008. Failure to set rents consistent with the plan will result in insufficient funding being available to facilitate delivery of the plan and will result in the Council failing in its duty to deliver the Scottish Housing Quality Standard (SHQS) by 2015. Use of reserves to reduce rent increases in the short term is likely to undermine the Council's ability to support delivery of the SHQS.

**9.2** The risk to the Council is if the HRA spends significantly more than is included within this budget or recovers significantly less in the way of income especially rental income. However, based on the recommendations at the end of this report, there is nothing at the time of writing this report that would suggest that this is likely to happen.

## **10. Conclusions and Recommendations**

**10.1** The Council is required to consider the level of weekly rent increase for the financial year 2011/2012.

**10.2** In determining the level of weekly rent increase due cognisance must be taken of the requirements for investment as detailed in the Standard Delivery Plan and the need for robust financial planning and management to ensure that the Council delivers on the SHQS by the year 2015.

**10.3** In formulating the attached estimate, officers have assumed a nil inflation uplift on all budget lines.

**10.4** Although Members have the option of using some of the HRA Reserve to limit the required rent increase, due cognisance must be taken of the need to build up reserves to fund the transfer costs associated with the potential partial stock transfer. In addition, significant resources will be required, both revenue and capital, if the Council is to successfully deliver on the SHQS. The Business Plan includes a total of £2m of transfer costs, the majority of which will be costs incurred in transferring the stock along with additional staff and consultancy costs. Adequate provision must be made for this.

**10.5** The HRA Reserve as at 31 March 2010 amounted to £2,448,000, after applying £194,000 to fund year 1 of the rent re-modelling capping arrangements. It was originally intended to utilise £50,000 from the reserve to fund Special Uplifts. However, it was subsequently decided not to proceed with the Special Uplifts. This sum, therefore, remains part of the HRA reserve.

**10.6** The 2010/2011 HRA budget is projected to be in balance at the year end.



- 10.7** Members will recall that Audit Scotland have recommended the Council maintains an HRA Prudential Reserve of 2% of gross expenditure, which for the 2011/2012 financial year equates to £653,000.
- 10.8** The required weekly percentage rent increase contained within the attached HRA estimate is £2.35 on a 52 week basis (£2.60 on a 47 week basis) which equates to 4.5%.
- 10.9** The attached budget as recommended below sets a rent level that meets the audit requirement in respect of maintaining a Prudential balance and of ensuring that all reasonable contingencies are taken into account.
- 10.10** It is recommended that Council:
- i) agree a weekly rent increase of not less than £2.35 on a 52 week basis (£2.60 on a 47 week basis), equating to 4.5% as detailed in appendix 1;
  - ii) maintain the existing level of lock up rentals.

**Elaine Melrose**  
**Executive Director of Housing, Environmental and Economic Development**  
**Date: 14 January 2011**

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**Person to Contact:** Gillian McNeilly - Finance Manager, Council Offices, Garshake Road, Dumbarton, G82 3PU, telephone: 01389 737194, e-mail: [gillian.mcneilly@west-dunbarton.gov.uk](mailto:gillian.mcneilly@west-dunbarton.gov.uk)

**Appendices:** Appendix 1 - 2011/2012 Housing Revenue Account Estimate

Appendix 2 - Rent Consultation Presentation Dated September 2010

**Background Papers:** None

**Wards Affected:** All