

WEST DUNBARTONSHIRE COUNCIL

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

Council: 26 January 2012

Subject: Housing Revenue Account (HRA) Estimates 2012/2013

1. Purpose

- 1.1 The purpose of this report is to provide Members with sufficient information to allow them to agree:
- the revenue budget for 2012/13;
 - the level of weekly rent increase for 2012/2013 which is sufficient to fund the revenue budget for 2012/13.

2. Background

- 2.1 Since November 2011 discussions have been ongoing with tenant and resident groups in relation to the Housing Revenue Account Estimates for 2012/2013. The invitation issued to the tenant groups in November 2011 intimated an average weekly rent increase of 4.5%, which is in line with the Council's approved 30 year 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 non-protected budget lines; and
 - A 1% turnover saving has been applied to employee costs.
- 2.3 For the financial year 2011/12 West Dunbartonshire's average weekly rent ranked eighteenth from top out of Scotland's 28 housing authorities.

3. Main Issues

3.1 Standard Delivery Plan/Delivery of the Scottish Housing Quality Standard (SHQS) by April 2015

- 3.1.1 A critical factor for setting rents for 2012/2013 and future years is to ensure that the Council has the resources available to meet the SHQS by 1 April 2015 and that it maintains this standard beyond that date.

- 3.1.2** The Council's updated Business Plan (which assumes partial stock transfer) recommends a minimum of 4.5% weekly rent increase for 2012/2013 and that this level of rent increase is recommended up to and including 2016/2017. Thereafter, the required rent increase would be 3.5%.
- 3.1.3** 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. These increases would need to be revised in the event of long-term inflation forecasts being above target.

3.2 Rent Re-modelling

- 3.2.1** 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.
- 3.2.2** 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.
- 3.2.3** 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.
- 3.2.4** The new rent model adopted by the Council has 25 standard rents compared to the previous rent structure which had over 299 standard rents.
- 3.2.5** The third and final year of the capping arrangements commences from Monday 28 May 2012 (the closest Monday to 1 June 2012) and at this date a total of 78 tenants will still require the £3 cap which will smooth the transition for these tenants towards paying the full re-modelled rent.
- 3.2.6** Members will note that the annual rent increase will be introduced as from Monday 2 April 2012 (the Monday closest to 1 April 2012) and the rent increases due to rent re-modelling will be introduced as from Monday 28 May 2011 (the Monday closest to 1 June 2012).

3.3 Comparison of 2012/2013 with 2011/2012 Estimates

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

3.3.1 Employee Costs

Employee costs have increased by £104,880. The ongoing financial benefit of the restructuring of the housing service implemented in 2010/11 has been more than offset by the successful regrading appeal by Housing caretakers. This appeal was decided after the 2011/12 budget had been set and is now reflected in the budget for the first time. The budget also allows for a temporary increase in the number of housing officers by 3 posts with a full year cost of £76,000 (this will be reviewed once the result of the stock transfer ballot is known). Two posts will provide additional housing officers to support the current work of the area teams in estate and tenancy management. A further temporary front-line post will be involved with pre-tenancy assessments and early support for new tenants to ensure that they are fully aware of their rights and responsibilities. In addition provision has been made for 6 modern apprentices (up from 2 in 2011/12) reflecting the Council's commitment to creating job and training opportunities for young people in West Dunbartonshire.

3.3.2 Property Costs

There has been no overall change in Property costs with increases in utility costs and property insurance offset by a reduction in the budget for property costs allocated to the HRA for use of council buildings at Rosebery, Garshake and the Repair Centres.

3.3.3 Supplies Services and Admin Costs

There is a small reduction of £24,000. This is primarily due to reductions in printing and stationery and general supplies.

3.3.4 Support Services

The recharge to the HRA for central support costs has increased by £100,000. This reflects the impact of restructuring within the central services including the transfer of a number of finance-related posts previously charged directly to the HRA.

3.3.5 Other Expenditure

Other expenditure has decreased by £32,200. This is due to a decrease in the budget for Strategy expenditure and reduced expenditure on legal fees and bank charges.

3.3.6 Reallocated Salaries

The amount of employee costs reallocated from the HRA to other General Services and Capital accounts has been reviewed following the restructure of the Housing service. A reduction in the proportion of work undertaken by HRA staff on General Services and Capital account functions and fewer staff overall has reduced this transfer from the HRA by £416,770.

3.3.7 Repairs and Maintenance

There has been an increase in the Repairs and Maintenance budget of £430,690. The main reasons for this increase are as follows:

a) Jobbing Repairs/Transfer to HRA Capital

Jobbing repairs have increased by £208,690. This increase allows for an inflationary uplift for private contractor repairs which the HMTA cannot undertake (£36,500) and slightly more void house security (£3,500). The remainder of the increase represents an increase in the revenue sum budgeted for the in-house contractor. There is, however, a decrease in the element of capital work of £260,000.

At the Council meeting in August 2011 it was agreed that an operating surplus target for the Housing Maintenance Trading Operation be established at 5% of turnover for 2012/13. This followed representations from tenants' groups over a number of years concerning the level of surplus being generated by the Housing Maintenance Trading Account and, more specifically, the fact that this surplus was returned to the General Services Account rather than the Housing Revenue Account. For the 5% target to be achieved there will need to be an increase in the percentage discount offered on the National Schedule of Rates.

Within the appended estimate, the benefit to the HRA of this change in practice has been retained within the jobbing repairs budget. The estimated value of this benefit is about £700,000 per year.

The Housing Service has consulted extensively with WDTR0 about the use of this additional resource and the preference from the groups is that the financial benefit is used to introduce a programme of cyclical planned maintenance work.

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

This budget has decreased by £23,550. This mainly due to projected savings within the ventilation contract.

c) Other Repairs

This budget has increased by £102,050. Although there are several increases and decreases within this budget head the main reason for the increase is the inclusion in the budget of an environmental improvement service. This budget will be used to set up four environmental improvement teams to carry out Grounds Maintenance works at locations owned by Housing Services and which have been identified as requiring additional attention and maintenance. These works include hedge reduction, grass cutting on steep bankings and deep cleaning of service lanes. This programme is an enhancement to the work currently carried out by Greenspace and reflects the demands of both tenants and elected members.

d) Close Cleaning

The 2011/12 budget contained a budget of £100,000 for close cleaning. In late 2010/11 there was an evaluation of this service both in terms of its scope and the standards expected from the service. Tenants and Residents Groups were informed of the outcome of this evaluation and their comments were sought on our proposals. In November 2011 approval was granted to go out to tender with expected variations to the specifications within the contract. The tender is now prepared with a view to release shortly. As a result of tenant consultation, it is anticipated that the costs will be greater than at present. For this reason provision of £130,000 has been included in the budget for 2012/13

e) Insurance Works

Insurance-related works (e.g. fire damage reinstatements) can be difficult to forecast. However, the budget has been increased by £33,500 to £256,250. This brings it in line with the annual average since 2008/09.

f) Recoveries

This budget has been reduced by £80,000 resulting in an increased cost to the budget. While recoveries from rechargeable repairs have been held constant it is felt prudent to reduce the expected recoveries from insurance recoveries given the inherent uncertainty surrounding this area of activity.

3.3.8 Bad Debt Provision

Given the level of outstanding HRA debtors it is felt prudent to provide for a greater top-up to the bad debt provision. The budgeted top-up in previous years was £350,000. However, the actual required top-up in the past two years has been £559,000 in 2010/11 and £461,000 in 2009/10. A provision of £520,000 has been set aside for 2012/13. This is £170,000 greater than in 2011/12.

3.3.9 Rents - Un-let Period (Houses)

The budget has increased by £225,480. The average number of voids per week to mid-October 2011 was 388 (65% or 254 of which are no or low demand voids) and has continued to increase: the average per week for the year to mid-January is 403 void houses per week (65% or 262 of which are no or low demand voids). The weekly average to mid-October has been used in setting the budget for 2012/13. The previous year's budget was based on an average of 329 per week (60% or 197 of which were no or low demand voids). The issue of void performance is currently being addressed. The programme of structural repair work in South Drumry is due to restart in January 2012 and lettings plans are being put in place for all long term voids with a view to generating demand and reducing the weekly void count from its current level.

3.3.10 Council Tax on Voids

The budget has increased by £56,290 to £250,000. Void performance has been less than anticipated in 2011/12 as outlined in 3.3.9 above. In 2010/11 the outturn on void council tax was £246,000.

3.3.11 Loan Charges

Loan charges have reduced by £343,920. The principal determinants of loan charges are the average pool interest rate and the level of borrowing. Net capital expenditure planned to support the delivery of the Scottish Housing Quality Standard has been less than budgeted in the past two years. While increased capital expenditure is planned for 2012/13 - as part of the Council's obligation to meet the Scottish Housing Quality Standard by 2015 it is planned to spend in excess of £25m - this will have little effect on the level of loan charges in 2012/13. This explains why 2012/13 loan charges have decreased. In addition to the £25m planned to be invested in our existing housing stock in 2012/13 the Council will also spend £7.695m within the HRA Capital Programme on building 75 new houses across the three sub-areas of the authority. While the majority of these new houses ought to be completed within 2012/13 the loan charges on this expenditure will not become relevant until 2013/14. The borrowing will be accommodated within the authorised prudential limits that will be presented to Council for approval within the Annual Treasury Strategy.

3.3.12 House Rent

The budgeted rental income from houses has reduced by £211,430. 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 and November 2011.

3.3.13 Revenue Interest

This budget has been reduced by £12,000 as interest accruing to the HRA is anticipated to be lower as a result of the prolonged period of low interest rates.

3.3.14 Other Income

This budget has been reduced by £55,000. 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 2012/13 following the transfer of Homeless Persons staff from Dumbarton Area Housing Office.

3.3.15 Balance Brought Forward

The budget as presented at Appendix 1 does not utilise any of the HRA Reserve. The 2012/13 budget is accordingly presented as a breakeven budget.

3.4 Consultation

- 3.4.1** The Council is committed to tenant consultation. A Tenants' Information Day was held on 26 November 2011, which covered all housing services including the proposed rent increase, and this was followed by a rent consultation meeting on 1 December, 2011. The December meeting was attended by three tenant/federation groups with apologies received from a further three. In addition the winter edition of Housing News issued to all tenants contained details of the proposed rent increase along with information on how to register any comments.

3.4.2 In accordance with tenants' wishes expressed last year the format of the rents consultation meeting was changed. In previous years Housing and Community Safety had given a presentation about how the Council is performing and asked for feedback about tenant priorities. However this format was rejected last year and the view was that people simply wanted a copy of the proposed HRA for the next financial year and to understand how the money was being spent.

3.4.3 The WDTR0 and tenant and resident associations across West Dunbartonshire have been fully appraised about the proposed rent increase which is included in the current HRA business plan. Residents have fully participated in the consultation process. Tenants have asked a comprehensive range of questions regarding the rent increase and the activities which will be funded from it. All comments received have been supportive of the Council's position.

4. People Implications

4.1 There are no personnel issues.

5. Financial Implications

5.1 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. (£2.47 on a 52 week basis and £2.73 on a 47 week basis). This is supported by the 30 year business plan.

6. Risk Analysis

6.1 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.

6.2 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.

7. Equalities Impact Assessment (EIA)

7.1 No issues were identified for potential equality impact of this report

8. Strategic Assessment

- 8.1** This report identifies resources available to the Council to deliver the Strategic Priorities, principally Social and Economic Regeneration. The attached budget is a means to delivering better employment opportunities, improving the quality of council housing, promoting the physical area regeneration across the authority and improving the estate management of our council estates. This budget augments resources in key areas to support the delivery of fit for purpose and sustainable services.

9. Conclusions and Recommendations

- 9.1** The Council is required to consider the level of weekly rent increase for the financial year 2012/2013 and agree an appropriate rent rate which meets the estimated costs of providing the Housing Service in 2012/13 as identified in the attached Appendix.
- 9.2** 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.
- 9.3** In formulating the attached estimate, officers have assumed a nil inflation uplift on all non-protected budget lines.
- 9.4** At March 2011 the HRA reserve, after allowing for the 2011/12 cost of the rent capping arrangement was £2.629m. Members will recall that Audit Scotland have recommended the Council maintains an HRA Prudential Reserve of 2% of gross expenditure, which for the 2012/2013 financial year equates to £695,000. The remainder of the reserve has been earmarked for stock transfer costs. It is therefore considered prudent to recommend that the budget for 2012/13 does not utilise any of this existing earmarked reserve and that the prudential reserve of £695,000 should be retained.
- 9.5** It is currently forecast (per the probable outturn) that there will be an in-year surplus on the HRA at the end of March 2012 of some £936,000 , principally because of the impact on loan charges of lower net capital expenditure in recent years. However, this was before the recent bad weather in December and January and this will have an effect on the forecast surplus for 2011/12 depending on the outcomes of insurance claims and any non-insurable costs - information on these is not available at present and therefore it is considered prudent to recommend that the budget for 2012/13 does not utilise any funding from the current favourable probable outturn position.

- 9.6** The required weekly percentage rent increase contained within the attached HRA estimate is £2.47 on a 52 week basis (£2.73 on a 47 week basis) which equates to 4.5%.
- 9.7** The attached budget as recommended below sets a rent level that satisfies best practice in maintaining a Prudential balance and of ensuring that all reasonable contingencies are taken into account.
- 9.8** It is recommended that Council:
- i) agree a weekly rent increase of not less than £2.47 on a 52 week basis (£2.73 on a 47 week basis), equating to 4.5% in order to meet the planned net revenue HRA budget as detailed in Appendix 1; and
 - ii) agree to maintain the existing level of lock up rent levels at the same levels as for 2011/12.

Elaine Melrose
Executive Director of Housing, Environmental and Economic Development
Date: 16 January 2012

Person to Contact: Joe Reilly - Business Unit Finance Partner,
Council Offices, Garshake Road, Dumbarton,
G82 3PU, telephone: 01389 737707, e-mail:
joe.reilly@west-dunbarton.gov.uk

Appendix: 2012/2013 Housing Revenue Account
Estimate

Background Papers: None

Wards Affected: All