

WEST DUNBARTONSHIRE COUNCIL

Report by Executive Director of Housing, Environmental and Economic Development

Council: 12 February 2009

Subject: Housing Revenue Account (HRA) Estimates 2009/2010

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 2009/2010; and
- the level of HRA prudential reserves for 2009/2010.

2. Background

2.1 Since November 2008 discussions have been ongoing with Tenants' and Residents' Groups in relation to the Housing Revenue Account Estimates for 2009/2010. The first draft estimate presented in November 2008 intimated an average weekly rent increase of 7.6%. Since that time however changes in economic conditions and other factors have resulted in a reconsideration of some elements of the draft budget and, as a consequence, a revised set of estimates attached as appendix 1 were discussed with Tenants' Groups at a meeting on Tuesday 27 January 2009.

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

- 2.5% inflation has been applied to employee costs;
- 2.5% inflation has been applied to a number of protected budget lines e.g. gas, electricity and payments to the Housing Maintenance DLO;
- A nil inflation has been assumed on all other budget lines;
- A reduction in anticipated loan charges has also been applied as a consequence of the debt rescheduling arrangements the Council has secured for 2009/2010 only; and
- A 3.75% turnover saving has been applied to employee costs.

The above factors are consistent with the approach taken to the General Services Account estimates.

2.3 The attached estimates make **no** provision for continuation of the three estate enhancement pilot schemes agreed to be included in the 2008/2009 HRA

estimate, although costs associated with continuation of these schemes has been provided to the Tenants' and Residents' groups and is likely to be in the region of £470,000 with an extension to the three pilot schemes costing a further £110,000 making a total cost of £580,000. This would require to be funded either from a further increase in the rent equating to 2.1%, alternatively it could be funded from the surplus on the HRA Reserve or through a combination of these measures.

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 2009/2010 and future years is to both 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 at its meeting held on 29 October 2008 agreed to submit its proposals for meeting the SHQS to the Scottish Government in the form of a Standard Delivery Plan. This plan proposed the transfer of 45% of the Council's stock and identified the need to increase rent by the retail price index (RPI) plus 3% in 2009/2010, 2010/2011, 2011/2012 and 2012/2013. Rents from 2013/2014 onwards would be set at RPI plus 1%.
- 3.3** Tenants were consulted on the implications of the draft Standard Delivery Plan before the October 2008 Council meeting and this was reported to the Council. As at October 2008 RPI plus 3% amounted to a 7.6% average rent increase in 2009/2010. Since this consultation and the report to the Council there have been changes in the monthly RPI figure with 3.1% being the December 2008 figure. The use of this figure for 2009/2010 would mean that RPI plus 3% would be 6.1% however, current economic forecast suggests that RPI may reduce in the coming year.
- 3.4** 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 RPI over the period of the plan. At this time the Scottish Government is still assessing the Council's Standard Delivery Plan.

4. Rent Modelling

4.1 The Council's current rent model was adopted in 1998 and, in the context of changing circumstances across the Council area and the need for investment to support SHQS, is no longer considered fit for purpose. This is supported by comments from representatives from the Tenants' and Residents' groups, who have shared views through the rent consultation meetings, that there is a sense of unfairness and inequity in the current model.

4.2 Given these issues and those referred to in section 5 below in respect of the application of rent harmonisation, Arneil Johnston have been commissioned to undertake work on behalf of the Council to develop options for a revised rent model which establishes an affordable rent policy taking account of the incomes of local people, the size, quality and property they rent with the aim of:

- Setting rents that are equitable across the whole Council area;
- Setting rents that are affordable to local households particularly those on low incomes and for older people;
- Setting rents that are sufficient to enable the Council to provide a high level service and meet the SHQS and to remain viable in the short, medium and long term;
- Setting rents that reflect the nature, condition and size of the property;
- Setting rents that are value for money and are comparable to other housing organisations operating in the area;
- Enabling rents to be easily set annually using the published RPI rate for November each year;
- Meeting, as a minimum all appropriate Scottish Housing Regulator performance standards and;
- Assessing the impact on the evaluation/price of potential transferring stock.

4.3 This work is at a very early stage but will be the subject of future discussion, consultation and reports to all stakeholders including tenants and their representatives.

5. Rent Harmonisation

5.1 The Social Justice Committee in June 2004 took a decision to agree the second stage of rent harmonisation increases be introduced in August 2004 and each August thereafter until harmonisation was complete.

5.2 A routine audit within Housing flagged up inconsistencies over rents recorded on the housing system and as a consequence, at an operational level, detailed work was undertaken to assess the reasons for this. The outcomes of that work, which

continued to be the subject of a more detailed internal audit investigation, indicates that the Council's previous decisions in respect of rent harmonisation have not been fully applied. As a consequence tenants who had historically been paying a rent above the standard rent level determined by West Dunbartonshire Council did not have their rents frozen, although those paying below the standard rent level have had the appropriate rent harmonisation increase applied.

5.3 At present therefore tenants continue to pay different rents for similar properties. Clearly, the Council may wish to consider this particular issue as part of the process of setting the budget for the Housing Revenue Account and, as a consequence, the rent increase.

5.4 The Rents System has been interrogated and the table below summaries the current position.

Total number of rents currently above the standard rent	6,089
Total number of rents currently below the standard rent	1,416
Total number of rents set at the correct standard rent	3,944
Total number of rents on the system	11,449

5.5 The following options are available for consideration.

Option 1 Continue with status quo i.e. continue to apply rent harmonisation as it has been applied to date

This would have the effect of applying the proposed average rent increase across all 11,449 properties including those properties with rents in excess of the standard rent. In addition, an additional uplift of no greater than 3% beyond the general rent increase would be applied to those that remain below the standard rent level.

Option 2 Suspend rent harmonisation increases for 1,416 properties for 2009/2010

In light of the issues associated with the Standard Delivery Plan and the need to review the Council's rent model in any case to support the Standard Delivery Plan, a decision could be taken to suspend rent harmonisation increases for the 1,416 properties for the 2009/2010 financial year, subject to a revised rent model being agreed for 2010/2011 and thereafter. The revised rent model would require to support the Standard Delivery Plan demands.

This would have the effect of applying the proposed average rent increase of 4.5% to all 11,449 properties.

Option 3 Properly apply previously agreed rent harmonisation arrangements

The effect of this would be to freeze those rents currently in excess of standard rent levels. This would mean however, that the net deficit on the HRA estimate would require to be recovered across only 5,360 properties, resulting in a rent increase to these tenants of 8.4%. Alternatively, to retain a rent increase of 4.5% for those due to receive an increase, the balance of funding, approximately £510,000, could be supported from the surplus on the Housing Reserve Fund.

For those 1,416 properties which remain subject to a rent harmonisation increase, as they would not yet have reached the standard rent level, a further increase in accordance with the Council's current policy would apply (no greater than 3% beyond the general rent increase).

Option 4 Suspend rent harmonisation increases for 1,416 properties and freeze those above the standard rent

In light of the issues associated with the Standard Delivery Plan and the need to review the Council's rent model in any case to support the Standard Delivery Plan a decision could be taken to suspend rent harmonisation increases for the current year subject to a revised rent model being agreed for 2010/2011 and thereafter. The revised rent model would require to support the Standard Delivery Plan demands.

Given that this work has already commenced, as outlined in paragraph 4, in the circumstance the Council could apply the proposed average rent increase of 4.5% to those 5,360 properties which would be due to receive it and fund the balance to support the budget for the HRA in 2009/2010 from the HRA Reserve Fund. The balancing figure in these circumstances would equate to around £602,000.

5.6 In considering the options above Members should be mindful that:

- A fit for purpose rent model to support future need is necessary from 2010/2011;
- Utilisation of reserves to support any action may compromise the Council's position in relation to facilitating investment needs associated with securing the Scottish Housing Quality Standard by 2015.

Taking these issues in to account it is believed that option 2 above represents the most viable way forward in the short term pending the introduction of a revised rent model

6. Comparison of 2009/2010 with 2008/2009 Estimates

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

6.1.1 Employee Costs

The employee costs have reduced by £207,460. The manual worker wages and employee overheads have reduced by £194,700 as no provision has been made for the continuation of the pilot projects approved at the Rent Consultation meeting held on Tuesday 22 January 2008.

6.1.2 Property Costs

Property costs have reduced by £22,000 mainly due to a reduction of £24,990 in Other Property Costs and of £9,660 in Office Rents which have offset increases of £10,630 in utility charges. These reductions follow the transfer of the Arrears/Rent Collection function to Corporate Finance.

6.1.3 Support Services

Cost of support services have increased by £31,680 reflecting salary and wage increases in 2009/2010.

6.1.4 Other Expenditure

Other expenditure has increased by £205,690 as a result of Strategy and Support expenditure having increased by £50,000 in anticipation of the HRA incurring costs on master-planning issues associated with regeneration activity. The increase of £151,010 in Recharges from Other Departments is made up of allocated property costs previously borne directly by the HRA (see 6.1.2) and increased indirect support costs as a result of pay increases and single status.

6.1.5 Reallocated Salaries

The amount of salaries reallocated from the HRA to other General Service budgets has reduced by £204,260 principally as a consequence of the agreed reduction in the HRA charge against Supporting People contracts.

6.1.6 Repairs and Maintenance

The repairs and maintenance overall budget has increased by £145,210 and the main reasons for this increase are as follows:-

- a) Jobbing Repairs/Transferred to HRA Capital

The jobbing repairs budget has increased by £480,310, but this has been partly offset by an increase in the value of major repair work being charged to the HRA capital account, which has increased by £106,550, resulting in a net increase of £373,760.

b) Other Maintenance - Gas, Lifts, CCTV etc

This budget has reduced by £60,340 mainly due to savings within the CCTV and Ventilation System contracts.

c) Other Repairs

This budget has reduced by £59,310. However, it now excludes the additional £150,000 to fund the Grass Cutting of Communal Areas pilot project approved at the Rent Consultation meeting held on Tuesday 22 January 2008. Offsetting this has been the inclusion of £68,000 to fund the requirement to have energy performance certificates for all void properties as well as some increases in expenditure on community alarms, pest control and TV aerial repairs.

d) Recoveries - Insurance and Rechargeables

This budget has increased by £113,000 and reflects in part an anticipated level of recoveries in light of experience during the current financial year.

6.1.7 Miscellaneous

This budget has reduced by £141,810, mainly in anticipation of a continuation of improved void house performance and the removal from the letting pool of some 169 houses which was agreed at the Housing, Environment and Economic Development Committee in January 2008.

6.1.8 Loan Charges

This budget has increased to reflect increased capital expenditure over the last few years. The increased borrowing will be accommodated within the authorised prudential limits that will be presented to Council for approval within the Annual Treasury Strategy on the 25 February 2009. This budget will continue to increase as the necessary additional capital investment to

deliver the Scottish Housing Quality Standard by 2015 as outlined in the Standard Delivery Plan approved in October 2008 is incurred.

6.1.9 House Rents

The budgeted rental income from houses has reduced by £410,120 and allows for the continuing reduction in the number of council houses as a result of council houses sales and the transfer/demolition programme agreed at the Housing, Environment and Economic Development Committee in January 2008.

6.1.10 Lock Up Rents

No change is proposed in the level of lock up rents. The current weekly rental across the Authority is £5.44 on a 52 week basis (£6.02 on a 47 week basis).

6.1.11 Other Rents

This budget had reduced by £26,090 reflecting the increase in void premises as a result of difficult trading conditions and the resulting fall in the HRA shops rental income during the current financial year.

6.1.12 Revenue Interest

It is anticipated the revenue interest accruing to the HRA will fall by £159,000 during the 2009/2010 financial year mainly due to the low level of interest rates.

6.1.13 Balance Brought Forward

During the 2008/2009 financial year £300,000 of the HRA Reserve was used to reduce the average weekly rent increase. The budget as presented at Appendix 1 does not utilise any of the HRA Reserve.

6.1.14 Other Income

This has reduced by £53,680 due to the reduced allocation of property costs following the staff transfers to Corporate Finance.

7. Consultation

- 7.1 The Council is committed to tenant consultation and a total of 3 Rents Consultation meetings involving 8 tenant/federation groups took place between November 2008 and January 2009.
- 7.2 A presentation (see appendix 2) was made to the tenant/federation groups which highlighted the following issues:
- The need to increase rents to meet the Scottish Housing Quality Standard and improve services to tenants;
 - Details of what rent monies have been spent on during the financial year 2008/2009;
 - Performance statistics;
 - A comparison of the Council's average rent to that of neighbouring authorities and local housing associations (the Council has a significantly lower average rent);
 - Issues surrounding the Standard Delivery Plan and the successful delivery of the SHQS by 2015;
 - A proposed rent increase of RPI plus 3% which equated to a rent increase of 7.6% (£3.62 a week on a 52 week basis and £4.01 a week on a 47 week basis);
 - Options for continuing or extending the three estate enhancement pilot schemes and;
 - It was confirmed that the costs of continuing or extending the three estate enhancement pilot schemes were **not** included in the proposed rent increase of 7.6%.
- 7.3 Tenant groups were asked to consider whether they wished to continue with the estate enhancement pilot schemes.
- 7.4 In January 2009, tenant groups were advised that a number of adjustments required to be made to the HRA estimates to reflect changes in the inflation assumptions and a reduction in loan charges. In addition, costed options surrounding the possible extension of the three estate enhancement pilot schemes were presented. (The details of these costed options are attached at appendix 3.)
- 7.5 Tenant groups provided verbal feedback, the general consensus being:
- 4.5% should be the maximum increase applied;
 - Tenants appeared to be happy with the enhanced caretaking service;
 - Tenants did not think that the back court maintenance/grass cutting of communal areas service provided good value for money;

- Tenants were unsure as to whether the close cleaning pilot should be started;
- A number of the tenant groups thought that the close cleaning and the back court maintenance/grass cutting of communal areas pilots should be discontinued, and the money saved re-invested in the enhanced caretaking service;
- A number of tenant groups expressed the opinion that the three enhanced estate pilot schemes should continue for another 12 months to allow them to be properly evaluated and;
- No tenant group was in favour of extending the three pilots until they had been fully evaluated.

7.6 The tenant groups were requested to provide written feedback by 2 February 2009. At the time of writing this report only one tenant group, Rosshead Tenants & Residents Association, have submitted their feedback in writing and the main aspects of their feedback is as follows:

- 70% of those tenants attending their special meeting voted in favour of a 4.5% rent increase;
- 100% of those tenants attending their meeting were in favour of extending the Enhanced Caretaker service;
- only 50% of those tenants attending the meeting were in favour of the Close Cleaning service as many tenants do not want to continue paying for this service and ;
- The tenants attending the meeting did not want to continue paying towards the back court maintenance/grass cutting of communal areas service until they have more information on where the £150,000 to fund the 2008/2009 pilot had been spend.

7.7 Tenants groups requested the Council's Rent Setting meeting scheduled for Thursday 12 February 2009 should be delayed to allow full consultation on the various options concerning the estate enhancement projects, but it was explained that this would be difficult as a statutory 28 day notice letter is required before the rent increase due to be introduced on 1 April 2009 could apply.

8. Personnel Issues

8.1 There are no personnel issues.

9. Financial Implications

- 9.1** To fund the budget as presented an average weekly rent increase of £2.15 (52 week basis) or 4.5% is required. (On a 47 week basis the average rent increase is £2.38.)
- 9.2** The costs of continuing or extending the three estate enhancement pilot schemes are **not** included in the attached estimates and if adopted would represent a further increase in rents of up to 2.1%.

10. Risk Analysis

- 10.1** 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 are likely to undermine the Council's ability to support delivery of the SHQS.
- 10.2** The current rent model is considered no longer fit for purpose and as a consequence must be reviewed prior to 2010/2011 as a mechanism to support a sustainable financial base to maintain stock in the longer term. Should this not be pursued risks exist over the Council's ability to demonstrate transparency, fairness and equity in its management of housing stock.
- 10.3** The risk to the Council is also that 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.

11. Conclusion

- 11.1** The Council is required to consider the level of weekly rent increase for the financial year 2009/2010.
- 11.2** In determining the level of weekly rent increase due cognisance must be taken of the requirements of 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.

- 11.3** In formulating the attached estimate, officers have minimised the inflationary uplift and have limited it to 2.5% for all employee costs and a few protected lines such as gas and electricity with nil inflation on the remaining budget lines.
- 11.4** Given the options contained in paragraph 5.5, Members require to consider how they wish to progress and fund the rent harmonisation issue in 2009/2010.
- 11.5** Consideration is required as to whether to continue with the three estate enhancement pilot schemes at an estimated cost of £470,000. Alternatively consideration could be given to extending these pilot schemes which would add a total of £580,000 (equating to an additional 2.1%) to the HRA budget.
- 11.6** 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 stock transfer. 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 legal costs incurred in transferring the stock along with additional staff and consultancy costs. Adequate provision must be made for this.
- 11.7** The HRA Reserve as at 31 March 2008 amounted to £1,238,000, after applying £300,000 to the 2008/2009 HRA budget. The 2008/2009 projected surplus as at 31 March 2009 is estimated to be around £447,000. Therefore the cumulative estimated HRA Reserve as at 31 March 2009 is estimated to be around £1,685,000.
- 11.8** Members will recall that Audit Scotland have recommended the Council maintains an HRA Prudential Reserve of 2% of gross expenditure, which for the 2009/2010 financial year equates to £627,000.
- 11.9** The required weekly percentage rent increase contained within the attached HRA estimate is £2.15 on a 52 week basis (£2.38 on a 47 week basis) which equates to 4.5%.
- 11.10** 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.

12. Recommendations

12.1 It is recommended that Council:

- i) agree a weekly rent increase of not less than £2.15 on a 52 week basis (£2.38 on a 47 week basis), equating to 4.5% as detailed in appendix 1;
- ii) consider whether to continue the three estate enhancement pilot schemes which will add 80p or 1.7% to the average weekly rent, or to expand the three estate enhancement pilot schemes which will add 99p or 2.1% to the average weekly rent and how this will be funded;
- iii) acknowledge the need for a revised rent model to support the delivery of the Scottish Housing Quality Standard and sustain housing standards;
- iv) agree to suspend rent harmonisation increases as outlined in paragraph 5.5 option 2 pending the introduction of a revised rent model for 2010/2011 and beyond;
- v) note the work being undertaken by Arneil Johnston in developing a new rent model that will sustain the delivery of the SHQS and that a report on this matter will be brought to a future meeting of the appropriate Committee and
- vi) to maintain the existing level of lock up rentals.

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Date: 6 February 2009

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Appendices: 2009/2010 Housing Revenue Account Estimate

Background Papers: None

Wards Affected: All

Costed Options for Enhanced Estate Pilot Schemes

Estate Caretaking

Current Pilot Provision

The current Estate Caretaking Pilot Scheme covers the areas as detailed in the table below and requires 9 Estate Caretakers. The 2008/2009 estimated cost was £180,000 and this equates to a pooled rent charge over 52 weeks of 30p (33p on a 47 week basis)

Area	No of Blocks	No of Tenancies	No of Caretakers
Rosshad	18	163	1
Alexandria Town Centre	23	177	1
Central/Radno r Park	Maisonettes Tenements	109 124	1 1
North Mountblow	Maisonettes	76	1
South Drumry	Tenements	205	2
Castlehill	Estate	140	1
Westcliff	Estate	142	1
TOTAL		1,136	9

The proposed additional areas which would benefit from Estate Caretakers have been identified as below.

Proposed Additional Estate Caretaking Provision

Area	No of Blocks	No of Tenancies	No of Caretakers
Glenside	13	87	1
Dalmuir	12	63	1
Haldane	33	195	1
TOTAL	58	345	3

The estimated cost of employing 9 Estate Caretakers for a full year to cover the original pilot areas would be **£180,000**.

The additional 3 Estate Caretakers would cost around **£60,000**.

Therefore the total cost of continuing with the original pilot areas plus adding the three additional areas would increase the **2009/2010 HRA estimate by £240,000 which equates to a pooled rent charge over 52 weeks of 41p (45p on a 47 week basis)**.

Close Cleaning

The cost of providing a close cleaning service in the Pilot areas, as detailed in the table below, has been estimated at **£140,000** and includes close cleaning in 158 blocks. This contract is currently out to tender.

However it must be stressed that the tender covering these 158 blocks has only recently been issued and the definitive cost will not be known until the tenders have been received and evaluated.

A cost of £140,000 would add 24p to a pooled rent charge over 52 weeks (27p over 47 weeks).

Zone	No of Blocks	No of Tenancies
Alexandria	42	264
Clydebank	71	574
Dumbarton	45	109
TOTAL	158	947

Back Court Maintenance/ Grass Cutting of Communal Areas

The cost of extending the provision of a Back Court Maintenance/Grass Cutting of Communal Areas service as detailed in the table below has been estimated at **£200,000**.

A cost of £200,000 would add 34p to a pooled rent charge over 52 weeks (38p over 47 weeks).

Pilot Areas

Zone	No of Blocks	No of Tenancies
Alexandria	42	264
Clydebank	71	574
Dumbarton	45	109
TOTAL	158	947

