

WEST DUNBARTONSHIRE COUNCIL

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

Council: 28 January 2010

Subject: Housing Revenue Account (HRA) Estimates 2010/2011

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 2010/2011; and
- the level of HRA prudential reserves for 2010/2011.

2. Background

2.1 Since October 2009 discussions have been ongoing with tenant and resident groups in relation to the Housing Revenue Account Estimates for 2010/2011. The first draft estimate issued to the tenant groups in November 2009 intimated an average weekly rent increase of 4.9%. Since that time however a number of factors have changed, resulting in a reconsideration of some elements of the draft budget and, as a consequence, a revised set of estimates (attached at appendix 1) were discussed with tenant groups at a meeting on Monday 11 January 2010.

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

- 1% inflation has been applied to employee costs;
- A nil inflation has been assumed on all other budget lines;
- A 3.75% turnover saving has been applied to employee costs;
- The enhanced estate caretaking service has been mainlined;
- The estimate for council tax liability on void houses has been increased to reflect the Council decision to reduce the discount on long-term empty property from 50% to 10% effective from 1 April 2010;
- A reduction in anticipated loan charges has also been applied as a consequence of the debt rescheduling arrangements the Council has secured for 2010/2011.

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

3. Estate Enhancement Pilot Schemes

- 3.1** At the Rent Setting meeting on 12 February 2009, Council agreed to expand the estate caretaking service to include a further 3 areas and to provide a close cleaning service in the pilot areas.
- 3.2** The estate based caretakers are well received in the estates within which they are located and are carrying out a vital role in improving the quality of life for tenants and residents and assisting in the sustainability of the housing stock. During the recent inspection by the Scottish Housing Regulator, the effectiveness of the caretaking service was well perceived. The inspectors were impressed with the integrated working relationship between caretaking staff and partner services across the Council and the positive impact this is having in improving estates generally.
- 3.3** The caretakers have proven to be an important link with the enforcement officers in tackling neighbour disputes and breaches of tenancy conditions. Incidents of graffiti and vandalism are picked up on a daily basis by the estate based caretakers and therefore rectified quicker. Due to the size of the enforcement officers' patches they are not able to be in every area on a daily basis, and therefore the presence of the caretakers on site assists greatly in dealing timeously with issues relating to anti-social behaviour.
- 3.4** A satisfaction survey is currently being developed and will be sent to all tenants and residents within the estates covered by the estate based caretakers by the end of January 2010. This feedback will be utilised to inform further developments within this service.
- 3.5** This positive view of the service was reinforced at the Rent Consultation Feedback meeting with tenant groups held on Monday 11 January 2010, where the overwhelming view was that the estate caretaking pilot should now be mainlined, and a budget of £215,000 has now been included in the attached estimates.
- 3.6** In terms of the close cleaning pilot, the contractors are generally performing satisfactorily, however feedback from service users has been varied, ranging from very good to poor. Both officers and tenants are concerned in relation to consistency of standards and compliance with the specification. The contractor has been made aware of the concerns raised and this will be discussed fully at a meeting being held on 13 January 2010, with a view to securing compliance with the specification and consistency of service.
- 3.7** Some tenants have raised concerns with Housing Services that the close cleaning pilot is unfair as they pay for this service through their rent, but do not live in an area covered by the pilot. Other tenants believe that the service is valuable and should continue if quality issues can be resolved.

3.8 A full satisfaction survey is under development and will be issued to all service users in January 2010.

3.9 At the Rent Consultation Feedback meeting tenant groups expressed differing views about whether the close cleaning pilot should continue or not and accordingly the attached estimates make no provision for continuation of the close cleaning pilot.

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

4.1 A critical factor for setting rents for 2010/2011 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.

4.2 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 inflation, measured by the Consumer Price Index (CPI), plus 3% in 2009/2010, to and including 2012/2013. Rents from 2013/2014 onwards would be set at CPI plus 1%.

4.3 However a number of critical assumptions have changed within the Business Plan, not least the fact that the anticipated capital receipt from the sale of Council houses has fallen from around £5m per annum to around £1.5m per annum and is likely to continue to fall.

4.4 Accordingly, the Council's specialist advisors, Arneil Johnston, have prepared a revised Business Plan which recommends that the 2010/2011 rent increase would be based on CPI plus 3%, and that this should be the minimum level of annual rent increase up to an including 2015/2016.

4.5 The October CPI index was 1.5% which equates to a rent increase of 1.5% plus 3% equalling 4.5%.

4.6 The CPI index varies from month to month and the CPI index discussed with tenant groups during the 2009/2010 rent consultation meetings was based on the October index.

4.7 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.

5. Rent Re-modelling

- 5.1 At its Special Meeting on Thursday 12 February 2009 the Council noted that the 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 and sustain the delivery of the Scottish Housing Quality Standard (SHQS), the current rent model was no longer considered fit for purpose.
- 5.2 The Council agreed that Arneil Johnston be commissioned to develop options for a revised rent model and also agreed to suspend rent harmonisation increases pending the introduction of a revised rent model.
- 5.3 Council will be aware that the Housing, Environment and Economic Development Committee, at its meeting on 6 January 2010, took the decision to implement the new rent model with effect from 1 June 2010.
- 5.4 The new rent model will be based on property size, type and general quality and will reduce the number of rents bands from 299 to 25.
- 5.5 The new rent model will ensure that throughout the Authority, for the first time since 1996, all properties of a similar size and type will have the same rent, establishing fairness, equity and transparency for all tenants.
- 5.6 The Committee also agreed to introduce a capping system, whereby weekly increases arising from rent re-modelling only, will be limited to no more than £3 in each of the three years from 2010/2011 to 2012/2013.
- 5.7 The total cost of introducing a £3 cap for three years is around £250,000 and this will require to be funded from the HRA Reserve.

6. Comparison of 2010/2011 with 2009/2010 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

Employee costs have increased by £259,420. This is primarily due to additional posts approved by the Housing, Environment and Economic Development Committee, at its meeting on 2 September 2009, to allow the Council to take forward the partial transfer of its housing stock as well as the implementation of the Empty Homes Strategic Framework and Tenant Participation. There has been a reduction of £25,800 in the strain on the

fund costs, which have arisen as a result of previous early retirements. These early retirement costs are spread over a number of years, and some of these costs have now come to an end.

6.1.2 Supplies & Services and Admin Costs

Overall costs have fallen by £50,370. Other supplies and services have been reduced by £18,700 following the transfer of the Arrears function to Corporate Finance. There has also been a reduction of £26,200 in the tenant participation budget. The previous year's budget had included this sum for the development of our Tenant Participation Strategy and this is not a recurring item of expenditure.

6.1.3 Reallocated Salaries

The amount of salaries reallocated from the HRA to other General Service budgets has reduced by £48,990. This reflects the complete removal of the HRA charge against Supporting People contracts more than offsetting the increased allocation arising from the inclusion of the new posts mentioned in 6.1.1 above.

6.1.4 Repairs and Maintenance

The overall repairs and maintenance budget has reduced by £103,080 and the main reasons for this reduction are as follows:-

a) Jobbing Repairs/Transferred to HRA Capital

The jobbing repairs budget has increased by £436,450, 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 £336,450, resulting in a net increase of £100,000.

b) Other Maintenance - Gas, Lifts, CCTV etc

This budget has increased by £63,160 mainly due to a small increase in the new gas maintenance contract of £12,000 and an increase of £46,000 in the new ventilation contract.

c) Close Cleaning Pilot

The 2009/10 budget contained provision of £140,000 for the close cleaning pilot. The current budget contains no provision for the continuation of this service beyond the contract term in June 2010.

d) Recoveries - Insurance and Rechargeables

This recovery budget has increased by £112,000 and reflects in part an anticipated level of recoveries in light of experience during the current financial year.

6.1.5 Miscellaneous

This budget has reduced by £287,680, mainly in anticipation of a continuation of improved void house performance and the removal from the letting pool of some 169 long-term void houses which was agreed at the Housing, Environment and Economic Development Committee in September 2009. This decision has had a knock-on effect on the council tax charge for empty houses which, despite the change in the level of empty property relief, has resulted in a year-on-year reduction of £35,140.

6.1.6 Loan Charges

This budget has increased by £362,000, reflecting our 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. 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.

6.1.7 House Rents

The budgeted rental income from houses has reduced by £762,010 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 September 2009.

6.1.8 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).

6.1.9 Factoring/Insurance

This budget line has increased by £59,000 reflecting an anticipated increase in factoring/insurance and common services recharges.

6.1.10 Balance Brought Forward

During the 2009/2010 financial year £380,000 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.

7. Consultation

7.1 The Council is committed to tenant consultation and two rent consultation meetings involving 9 tenant/federation groups took place between October 2009 and January 2010.

7.2 A presentation (see appendix 2) was made to the tenant/federation groups on Tuesday 27 October 2009, which highlighted the following issues:

- Details of what rent monies have been spent on during the financial year 2009/2010;
- 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);
- Progress made during the year on tenant participation, access to housing/lettings, tenancies and neighbourhood management and income maximisation;

- Performance on key areas including repairs and maintenance, void management, supervision and management, home improvements, the estate caretaking and close cleaning pilots;
- Progress on the standard delivery plan and the successful delivery of the SHQS by 2015;
- Priorities for 2010/2011 including the common housing register, organisational arrangements, effective business support systems, further improvements in processes and procedures, extension of performance framework through PDP, tenant participation development, service plan review, competitiveness, stock

transfer/SHQS delivery, empty homes strategic framework and the review of the local housing strategy 2011;

- The need to increase rents to meet the Scottish Housing Quality Standard and improve services to tenants;
- A proposed rent increase of 5.3% (£2.64 a week on a 52 week basis and £2.92 on a 47 week basis);
- It was confirmed that the costs of continuing or extending the two estate enhancement pilot schemes were **not** included in the proposed rent increase of 5.3%;

7.3 Thereafter, following some further budget refinements, the first draft budget was issued to all tenant groups, which showed a required rent increase of 4.9%, and the tenant groups were advised that this draft budget did not include any provision for the estate caretaking nor the close cleaning pilots.

7.4 At the Rent Consultation meeting held on 11 January 2010, tenant groups were advised that a number of adjustments required to be made to the HRA estimates including a reduction in the estimated loan charges of £280,000 and that in view of the very favourable feedback received regarding the estate caretaking pilot, the opportunity had been taken to mainline this service and that the draft estimates now showed a requirement for a weekly rent increase of 4.5%.

7.5 Tenant groups provided verbal feedback, the general consensus being:

- 4.5% was not considered to be an unreasonable rent increase, particularly as the estate caretaker enhancement had been included in the draft budget;
- In the light of increases arising from rent re-modelling, the annual rent increase should be kept as low as possible;
- Tenant groups appeared to be happy with the enhanced caretaking service;
- Tenants groups were unsure as to whether the close cleaning pilot should continue, some groups were in favour and some were not;
- Some tenant groups were still concerned about the financial impact of the re-modelled rent structure which was due to be implemented on 1 June 2010.

7.6 The West Dunbartonshire Tenants and Residents Organisation (WDTRO) and the Rosshead Tenants & Residents Association have submitted written feedback.

- WDTRO expressed the view that, although the rent consultation process had started a month earlier than in previous years, the consultation process had now fallen behind and tenants were still unaware of the proposed rent increases for 2010/2011.

- WDTRO also expressed the view that while everyone recognised that rent re-modelling was a separate issue from rent setting, both impact upon tenants and, due to the current economic situation, cost of living wage increases will be nothing like the rent increases being considered by the Council let alone any rent increase for rent re-modelling.
- Rosshead Tenants and Residents Association expressed the view that although the proposed rent was reasonable, they did not agree to a rent rise taking place in April 2010 for the following reasons;
 - “For the Council to put the rent up, put the two pilots up and then do a rent re-structure at the same time is asking a bit too much of its tenants.
 - There is £800,000 sitting in the Housing Revenue Account, which is money belonging to tenants who pay their rent and we believe this should only be used for any interests involving rent payers.
 - On reading the Lennox Herald, our tenants are now under the impression that, the current administration is looking at using some of the HRA reserves to put into the General Fund.
 - The Council has not consulted well enough on the rent re-structure and no-one is any the wiser on the amount of rent they will be asked to pay.”
- The Association concluded by asking that the Council uses some of the HRA Reserve to help ease the burden of the proposed rises for 2010.

7.7 It must be stressed that, during the rent consultation meetings, officers have clarified the position regarding the history of resource transfer from the HRA to the General Fund and conversely from the General Fund to the HRA.

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 £2.24 (52 week basis) or 4.5% is required. (On a 47 week basis the average rent increase is £2.48.)

9.2 The cost of mainlining the close cleaning pilot is **not** included in the attached estimates and if adopted would represent a further increase in the weekly rent of 7p to £2.31 (52 week basis) or 4.6% (£2.56 on a 47 week basis).

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 is likely to undermine the Council's ability to support delivery of the SHQS.

10.2 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.

10.3 The pressure to continue to improve performance across the housing service remains with the feedback on the outcomes from the recent Regulatory inspection anticipated in February 2010. While substantial progress has been made over the last 12 months the additional resources provided for within this budget are fundamental to achieving the step change required in key areas and failure to support this improvement process could result in improvement plans being compromised and tenants expectations not being realised. The consequences in terms of reputational risk for the Council and more widely in respect of its best value commitments could be significant.

11. Conclusions and Officers' Recommendations

11.1 The Council is required to consider the level of weekly rent increase for the financial year 2010/2011.

- 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 1% for all employee costs.
- 11.4** Given the very positive feedback received on the enhanced estate caretaker service, the opportunity has been taken to mainline this service within the 2010/2011 HRA budget.
- 11.5** Consideration is required as to whether to mainline the close cleaning service which would cost an additional £41,000 equating to an additional weekly rent increase of 7p to £2.31 (52 week basis) or 4.6% (£2.56 on a 47 week basis).
- 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 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 2009 amounted to £1,460,000, after applying £380,000 to the 2009/2010 HRA budget. The 2009/2010 HRA budget is projected to break-even.
- 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 2010/2011 financial year equates to £638,000.
- 11.9** The required weekly percentage rent increase contained within the attached HRA estimate is £2.24 on a 52 week basis (£2.48 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.
- 11.11** It is recommended that Council:

- i) agree a weekly rent increase of not less than £2.24 on a 52 week basis (£2.48 on a 47 week basis), equating to 4.5% as detailed in appendix 1;
- ii) consider whether to mainline the close cleaning service at a 2010/2011 cost of £41,000 which would add 7p (52 week basis) to the required weekly rent increase;
- iii) maintain the existing level of lock up rentals.

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Appendices: 2009/2010 Housing Revenue Account Estimate

Background Papers: None

Wards Affected: All