

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

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<b>REPORT TO:</b>	Leader and Cabinet Scrutiny and Overview Committee	9 <sup>th</sup> February 2006 16 <sup>th</sup> February 2006
<b>AUTHOR:</b>	Finance and Resources Director	

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### HOUSING REVENUE ACCOUNT RENTS AND CHARGES

#### Purpose

1. For the Portfolio Holder to recommend to Cabinet appropriate variations in rent and charges for 2006-07.

#### Effect on Corporate Objectives

2. 

Quality, Accessible Services	To ensure that Housing Revenue Account rents and charges provide sufficient resources for the Council to continue and improve its housing services and meet the Decent Homes Standard.
Village Life	
Sustainability	
Partnership	

#### Background

3. This report relates to the setting of rents and charges, which are considered more comprehensively within the Finance and Resources Director's report to the Portfolio Holder on the Housing Portfolio Holder's estimates as a whole.
4. The estimate report to the Housing Portfolio Holder contained details of the proposed income and expenditure of the Housing Revenue Account (HRA) for the coming financial year and made recommendations concerning the level of rent and charges, compatible with Government guidelines, which would be required to support the envisaged budget. Having considered the report, in turn, the Portfolio Holder for Housing is now able to make recommendations to Cabinet and ultimately to Council on what would constitute the most appropriate variations to the rent and charge levels, whilst maintaining an acceptable minimum level of working balance.
5. In order to contain the length of this report, much of the information provided to the Portfolio Holder has been summarised. **The methodology used in determining rents under the Office of the Deputy Prime Minister's (ODPM) guidance is very complex and any Member wishing to have a fuller understanding of the issues involved can be supplied, on request, with a copy of the full report to the Portfolio Holder dealing with this and related matters.**

#### Considerations

#### **GENERAL**

6. The draft estimates, considered in an earlier item on this agenda, have been prepared on the assumption that the level of rent and other Housing Revenue Account (HRA) charges for 2006-07 are varied as recommended by the Portfolio Holder.

7. It is considered that the minimum acceptable working balance should be around £1 million, which represents around £170 per dwelling. If Members agree to the expenditure as presented in the draft estimates then, in 2006-07, expenditure will exceed income by £0.4 million, resulting in the working balance being reduced to approximately £1 million by March 2007. **It must be emphasised, however, that the true underlying deficit is the £0.4 million and only by utilising part of the opening balance, of around £1.4 million, has the full financial effect been masked.**
8. Members should be aware that the Authority has a statutory duty to balance its HRA. The need to set a balanced budget and maintain the working balance at a minimum of £1 million implies that net expenditure in 2007-08 will need to show a reduction of £0.4 million from the 2006-07 figures.
9. There has been a substantial increase, of £800,000 net, in the estimate of the amount for the negative subsidy transfer to the national pool that will be required in the 2006-07 financial year. This has to some degree masked the savings expected to be made as a result of staffing initiatives currently being pursued and the windfall reduction in recharges to the HRA that has arisen as a part of the General Fund "balanced budget exercise".
10. There is likely to be a further above inflationary increase in the negative subsidy figure for 2007-08 and, whilst to a certain extent this may be offset by the removal of one off items of expenditure in the 2006-07 financial year, such as the provision for £350,000 of redundancy costs, there could still be a need for further revenue savings in 2007-08 in order to balance the HRA.
11. As has already been indicated in Item 3 of this agenda, the practice of funding major repairs and improvements from capital receipts, at the current level, does not now appear to be feasible after 2008-09. Whilst the cost of these items could also be met from grants, borrowing or revenue, it seems unlikely that the financing gap could be narrowed, to any meaningful extent, by the use of any of these alternative funding sources. At present no additional potential for grant aid has been identified and it also seems improbable that substantial borrowing or revenue funding would be a realistic possibility. The cost of both of these would fall on the HRA, which is already under financial pressure. It may, therefore, be necessary to revisit the question of transferring the stock sooner than was expected last July when the Stock Options Appraisal was considered by the Council.
12. Members will naturally wish to know the effect on the proposed rent level of any shortfall in income on the Building Maintenance In-house Contractor (DLO) trading account. The draft estimates maintain a provision of £185,000, for this financial year, for the possible under-recovery of DLO costs. For 2006-07 no provision has been made, as the Housing and Environmental Services Director is of the opinion that the account will be able to break even, owing to various initiatives being put in place by the DLO Implementation Group. As a consequence, there is no direct impact on the level of tenants' rent proposed.

## **RENTS**

13. At the Cabinet meeting held on 29<sup>th</sup> November 2001, Members approved a revised method for determining rents for individual properties in line with the Government's guidance on rent restructuring. In order to maximize income, whilst avoiding

suffering a financial penalty, the draft estimates have been prepared on the assumption that rents will be varied in line with the Government's Scheme.

14. The Office of the Deputy Prime Minister (ODPM) has asked that, in addition for the 2006-07 financial year, along with the usual caps on individual rent increases included in the guidance, Authorities ensure that the **average** rent increase is limited to 5%. Compliance with this request has been assumed in the draft estimates.
15. All costs associated with the Rent Rebate Scheme are now a charge on the General Fund. Consequently, the Government is now subsidising these direct benefit payments and will impose a financial penalty on the HRA if the Council's rents are above the ODPM's "Limit Rent" guideline figure which, for this Authority, for 2006-07 is £66.75 per week.
16. The inflationary figure to be applied to this year's rent, in line with the Government's guidance is 3.2%. To this must be added the amount required to move towards target rent levels over the remaining six years of the transitional period of the Scheme. It is anticipated that the 3.2% inflationary element, plus the 1/6th stepped change for rent restructuring, would increase the average rent from £62.39 to £66.67; a total average increase of 6.9%.
17. Compliance with the Government's individual rent restriction guidance would result in the Authority losing around £137,000 of potential additional income in 2006-07. However, to impose rent increases in total disregard to the Government's expectations, would mean that next year the Guideline Rent figure would not include an allowance for adherence to the limits. Consequently, the Authority could reasonably anticipate an increase in the 2007-08 transfer to the ODPM in relation to the negative housing subsidy, which would cancel out any benefit of a higher than recommended rent increase.
18. If the normal caps and limits are applied, the average rent would increase by 6.1% to £66.19. However, the government has requested that the average increase is limited to 5% and this could be achieved by setting the maximum increase over and above the recommended 3.2% inflationary uplift at £1.15 per week. Any reduction in the average rent between 6.1% and 5.0% should have no effect on the HRA as the ODPM has given an assurance that the Council will be reimbursed during 2006-07 for the rent income forgone as a consequence of adhering to the rent restriction request.
19. The table below sets out differing levels of percentage increase in rent and the consequential effect on the average rent (currently £62.39 per week) that this would imply for tenants. The table also shows the reductions in expenditure and/or working balance that would be needed if the rents are set below the average level of £65.52 (5% increase) assumed in the draft estimates.

20.

Rent Increase with 3.2% for inflation + a stepped change of 1/6 for rent restructuring*			
Maximum Increase Over Inflation	2006-07 Average Rent	Average Increase (Current Average is £62.39)	Effect on Working Balance
			£000
£1.00	£65.38	4.8%	-35
£1.10	£65.47	4.9%	-8
<b>£1.15</b>	<b>£65.52</b>	<b>5.0%</b>	<b>0</b>
£1.20	£65.57	5.1%	0
£1.50	£65.83	5.5%	0
£2.00	£66.19	6.1%	0
no maximum applied	£66.67	6.9%	+137

\* the 1/6<sup>th</sup> is to move towards target rent levels over the remaining 6 years of the scheme

21. The Portfolio Holder recommends that from April 2006 rents are increased by an average of 5% (£3.13 per week), based on an inflationary increase of 3.2%, plus or minus a maximum of £1.15 amount towards the phasing in of rent restructuring.

### **CHARGES FOR SERVICES AND FACILITIES**

#### ***Sheltered Housing Service Charges to Tenants***

22. **Support charges.** Members agreed to a transitional scheme for sheltered support charges. As a consequence, tenants not on benefit and in residence before the start of the Supporting People Regime are currently paying a reduced support charge of £9.50 per week, whilst the full charge is £13.99 per week. This was intended to be a transitional scheme and it was agreed last year that this reduced charge would be phased out over a four year period starting in 2005-06. The Portfolio Holder, therefore, recommends that the reduced support charge for 2006-07 is set at £11.04 a week.
23. The best estimate available for the weekly amount of Supporting People Grant for Sheltered Housing is £14.13. The Portfolio Holder, therefore, recommends that the full support charge for 2006-07 is set at £14.13 in line with the estimated grant figure.
24. **Service charges.** The ODPM expect Authorities to begin phasing out the “pooling” of service charges. “Pooling” refers to the situation where a portion of the costs of a service, rather than being paid for by the recipient, is shared out between tenants in general. The sheltered housing service charge has a considerable “pooled” element and the Portfolio Holder therefore recommends that the related charges are increased by 3.2% to £6.04 a week (in line with the ODPM guidance for 2006-07).

#### ***Sheltered Housing Service Charges to Equity Shareholders***

25. **Full individual charging.** Following a recommendation from the Equity Share Advisory Group, Members requested that full individual charges be phased in for equity shareholders. Last year, it was agreed that (in view of the major changes likely to come about following the imminent major review of sheltered housing, to be carried out by the Housing for Older People Advisory Group) any changes in the basis of charging be deferred, and considered as part of the review.

26. The Housing for Older People Advisory Group (HOPAG) decided that it would not be practical to alter the basis of charging at this time. The Portfolio Holder supports the view of the HOPAG and recommends to Council a continuation of the existing practice of setting a standard charge and this has therefore been assumed for the purpose of the estimates.
27. **Proposed service charges (support and service).** A service charge of £20.58 per week (for those in residence prior to 1<sup>st</sup> April 2003) or £23.67 per week (for others) is currently made to equity shareholders. In addition to the £17.08 per week or £20.17 per week charge for sheltered housing services made to tenants, the charge to shareholders includes £3.50 per week mainly to cover external repairs and estate maintenance. For tenants, these items are included in the rent; therefore, for the charges for tenants and shareholders to be equitable, the charge made to shareholders should be greater than that made to tenants.

***Alarm System Service to Owner Occupiers and Tenants not on a Sheltered Housing Scheme***

28. At present there is a reduced charge for those in receipt of benefit, which was introduced some years ago because the charges for lifelines were not eligible for benefit. The service is subsidised from both the HRA and the General Fund based on the proportion of tenants and owner-occupiers in the scheme. Last year it was agreed that the reduced charge for those on benefit would be phased out over a 4 year period; however, as part of the General Fund savings exercise the Council decided that the reduced charge would be abolished from 2006-07.
29. The budget allows for the possibility of a reduction in demand (as a consequence of the increase in the charges) giving rise to estimated net expenditure of £2,560 in 2006-07. However, both the Portfolio Holder and the Housing and Environmental Services Director have indicated their preference for the alarm systems service to breakeven in 2007-08.
30. The estimates have been prepared on the basis that the charge for group alarms is set at £3.28 (in line with the anticipated level of supporting people grant), the full charges for lifelines are increased by 2.5% (in line with inflation) to £3.61 and the reduced charge is abolished from 1<sup>st</sup> April 2006 (as agreed by Council at the meeting held on 27<sup>th</sup> October 2005).

***Garage Rents***

31. The Portfolio Holder has indicated her preference for the rent for garages occupied by non-Council tenants or leaseholders to be increased by 10% and the rent for other garages by 3.2%. These above inflationary increases are to take advantage of the fact that any additional income from garage rents is fully available to the HRA. Should the rent increases lead to a higher level of voids, Shire Homes will take the opportunity to consider the sale of any under-used garage areas to make land available for new housing.
32. The Portfolio Holder recommends that the charges for services and facilities are varied as detailed in the following table:

Service or Facility	Current Charge per week	Proposed Charge per week	Increase	
	£.p	£.p	%	£.p
<b>Sheltered Housing Service Charge</b>				
Sheltered Housing Service Charge for Tenants				
- support element				
- those in residence prior to 01/04/03	9.50	11.04	16	1.54
- other tenants	13.99	14.13	1	0.14
- other (communal facilities etc)	5.85	6.04	3	0.19
Sheltered Housing Charge for Equity Shareholders				
- schemes with all facilities				
- those in residence prior to 01/04/03	18.85	20.58	9	1.73
- other shareholders	23.34	23.67	1	0.33
- schemes without a common room				
- those in residence prior to 01/04/03	13.05	14.54	11	1.49
- other shareholders	17.49	17.63	1	0.14
<b>Alarm System Service Charge*</b>				
Group Alarm Schemes	3.25	3.28	1	0.03
Other				
Those not in receipt of benefit				
- where the Council supplies the alarm	3.52	3.61	3	0.09
- where the tenant supplies the alarm	2.85	2.92	3	0.07
Reduced charge for those in receipt of benefit				
- where the Council supplies the alarm	2.24	No longer available		
- where the tenant supplies the alarm	1.59	No longer available		
* plus VAT where appropriate				
<b>Garage Rent</b>				
Garages rented to a Council house tenant or leaseholder	5.92	6.11	3	0.19
N.B. in excess of two garages will be subject to VAT				
Other Garages (subject to VAT)	7.66	8.43	10	0.77

### Financial Implications

33. The financial implications contained in the body of the report.

### Legal Implications

34. The Authority has a statutory obligation to balance its HRA.

### Staffing Implications

35. Provided Members approve the draft estimates and the proposed rent and charge levels, there do not appear to be any direct staffing implications.

### **Risk Management Implications**

36. Provided Members approve the draft estimates and the proposed rent and charge levels, there do not appear to be any risk management implications.

### **Conclusions/Summary**

37. The estimates include income from rents and charges at the level recommended by the Portfolio Holder. Any variations to the draft estimates and/or the proposed levels of rent and charges may require reconsideration of the HRA budget.

### **Recommendations**

38. The Portfolio Holder requests Cabinet to recommend to Council that:
- (a) from the first rent week in April 2006, rents are increased by an average of 5%, based on an inflationary increase of 3.2%, plus or minus a maximum of £1.15 towards the phasing in of rent restructuring;
  - (b) in line with the conclusions of the Housing for Older People Advisory Group, the existing practice of setting a standard charge to equity shareholders for sheltered housing services becomes Council Policy; and
  - (c) charges for services and facilities are increased as outlined in the table at paragraph 32.

**Background Papers:** the following background papers were used in the preparation of this report:

The Revenue and Capital Estimates Report presented to the Housing Portfolio Holder on 30<sup>th</sup> January 2006

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