

HRA Rent and Budget Setting

2017/18

The Housing Revenue Account

- The Housing Revenue Account (HRA) is a ring fenced account which cannot be subsidised from the General Fund and any surplus or deficit in the HRA is carried over to the next financial year
 - The HRA operates under the self financing regime introduced by Government in April 2012
 - This required the Council to take on approx. £170m debt and develop a 30 year business model
 - Proposals for this budget setting year continue to be driven by the financial planning that underpins the model to deliver services and capital investment
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Lambeth Housing Standard


Lambeth

- The costs of the full LHS programme have increased following the completion of surveys and more homes being brought into scope
- The programme is supported by Decent Homes Government Grant Funding totalling £124m
- £107m capital expenditure expected in the current year, with a further £70m expected in 17/18.
- This requires careful management of the finances to ensure there is adequate funding to support the programme whilst maintaining sufficient reserves
- The works have meant more tenants benefitting from major capital investment to their homes

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Housing Revenue Account


Lambeth

- The General HRA balance as at 31 March 2016 was £10.7m
- Aim is to hold General HRA balances of 5-10% (Currently 6.4%), with a minimum level of £10m on a sustainable basis and use balances above that to deliver the capital investment programme

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Housing Management: Performance (Oct 2016) Lambeth

- 96.3% of collectable rent, including arrears, has been collected (target 95.1%)
- Voids at 1.6% – it takes less than 29 days to re-let empty homes

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Setting The Rents: Rent Policy Lambeth

- Following the Summer 2015 budget there is an enforced rent reduction of 1% per year for the four years 2016/17 – 2019/20
- Overall goal is to support the HRA 30-year business plan in terms of service delivery and capital investment
- The reduction in rents compared to the 2015/16 business plan is expected to create a £28.4m funding shortfall once the full four-year impact is factored in
- Savings options are currently being explored to manage this shortfall within the HRAs management costs and efficiencies, but cuts on this scale will impact on frontline provision
- If we were to do nothing to reduce expenditure, the HRA would be bankrupt within three years

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Setting The Rents: Rent Policy

- The enforced rent reduction of 1% does not apply to any PFI properties. There is provision to increase rents for those PFI properties.
- We have chosen not to increase the rent for those affected properties and intend to apply the 1% rent reduction in line with the rest of the Council's homes so that residents in those properties are not adversely affected.

Rent Summary

1% Rent Reduction	
Average rent PW (£)	£108.47
Average decrease PW (£)	£1.10
Average decrease PW (%)	1%

Impact – 1.0% Decrease

Lambeth

Bedrooms	% of dwelling stock	Avg weekly rent 2016/17	Avg weekly rent 2017/18	Average Decrease	% Decrease
Studio	3.76%	£80.66	£79.85	£0.81	1%
1 Bed	28.03%	£93.70	£92.77	£0.93	1%
2 Bed	35.17%	£107.10	£106.02	£1.08	1%
3 Bed	26.15%	£124.48	£123.24	£1.24	1%
4 Bed	5.60%	£142.83	£141.40	£1.43	1%
5 Bed	0.94%	£156.10	£154.54	£1.56	1%
Over 5 Bed	0.36%	£166.71	£165.05	£1.66	1%

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Decreases for individuals

Lambeth

Bracket	No. of occupied properties	% of occupied properties
£0.66 - £0.85	1,631	6.98%
£0.86 - £1.05	9,201	39.36%
£1.06 - £1.25	8,348	35.71%
£1.26 - £1.45	2,702	11.56%
£1.46 - £1.65	1,373	5.87%
Over £1.65	120	0.51%
Sub Total	23,375	
Void Properties	449	
Grand Total	23,824	

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Service Charges

Lambeth

- Service charges are set on the basis of recovering the estimated cost of providing the service
- There will be decreases in common service charges and small increases in a couple of the specific charges

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Service Charges Proposal

Lambeth

Charge	2016/17 (per week)	2017/18 (per week)	Movement	%
Common service charges				
Caretaking	1.40	1.27	-0.13	-9.29%
Grounds Maintenance	1.46	1.38	-0.08	-5.48%
Estate Cleaning	6.50	6.40	-0.10	-1.54%
Communal Lighting	2.90	2.85	-0.05	-1.72%
Disinfestation	0.82	0.77	-0.05	-6.10%
Total	13.08	12.67	-0.41	-3.13%
Heating and Hot Water (Average)	15.02	11.01	-4.01	-26.70%

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Lambeth

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Service Charges Proposal (cont'd)

Lambeth

Charge	2016/17 (per week)	2017/18 (per week)	Movement	%
Specific service charges				
TV Aerial	0.27	0.26	-0.01	-3.70%
Concierge	16.34	18.53	2.19	13.40%
CCTV	2.33	2.42	0.09	3.86%
Door Entry – Audio	1.47	1.53	0.06	4.08%
Door Entry – Video	2.23	2.32	0.09	4.04%
Total	22.64	25.06	2.42	10.69%

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Concierge

Lambeth

- There was a significant increase in the cost of concierge service charges set out in the 2016/17 rent and service charge setting round totalling £5.15 per week
- It was agreed that this increase would be staggered over two years to limit the impact at £2.58 per year
- The actual costs of providing the service have decreased slightly from 16/17 to 17/18, which has partially mitigated the second year of the increase, reducing it to £2.19 per week

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Garages & Sheds

Lambeth

- A review of garage and shed charges has been undertaken benchmarking our current charges with that of neighbouring London boroughs and the average commercial rent for garages and sheds in Lambeth.
- The review recommended a new charging structure for garages and sheds be implemented in order to realize greater potential rental income from these assets, whilst maintaining discounted rents for tenants and leaseholders.

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Garages & Sheds

Lambeth

The review identified

- Tenant and leaseholder rental charge for a garage in 2016/17 (£12.23pw) is lower than in comparable boroughs where the average charge was £18.75pw and the highest charge was £23.08pw.
- The average commercial rent for a garage in Lambeth is £37.95pw, significantly higher than the current council non-resident charge of £30pw.
- Shed charges had not been increased since before 2000 and that charges for sheds in comparable boroughs ranged from £1.50pw to £3.00pw.
- The review recommended that garage and shed charges were increased to better reflect current market charging rates.

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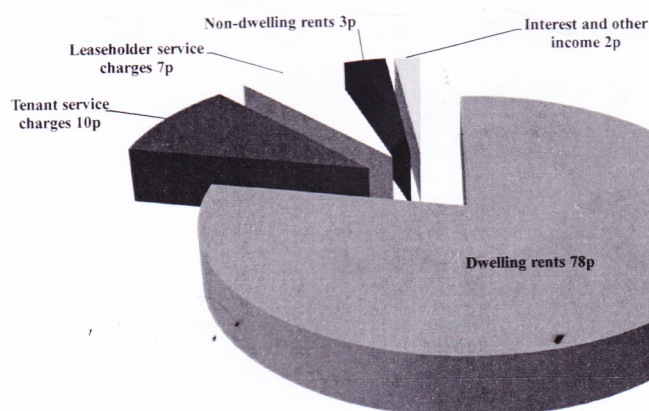
Garages & Sheds – Charges Proposal Lambeth

Charge	2016/17 (per week)	2017/18 (per week)	Movement	%
Garages				
Category A – Tenants	£12.23	£19.00	£6.77	55.36%
Category B – Resident Leaseholders	£12.23	£22.50	£10.27	83.97%
Category C – Non-Residents	£30.00	£36.00	£6.00	20.00%
Category D – Blue Badge Holders	£0.00	£0.00	N/A	N/A
Category E – Council Interest Dispensations*	£N/A	£0.00 - £36.00**	N/A	N/A
Sheds				
General	£1.00	£3.00	£2.00	200.00%

* Garages that are currently let for either community use or under special arrangements due to non-uniform size
 **Level of charge to be agreed by Director of Housing Services

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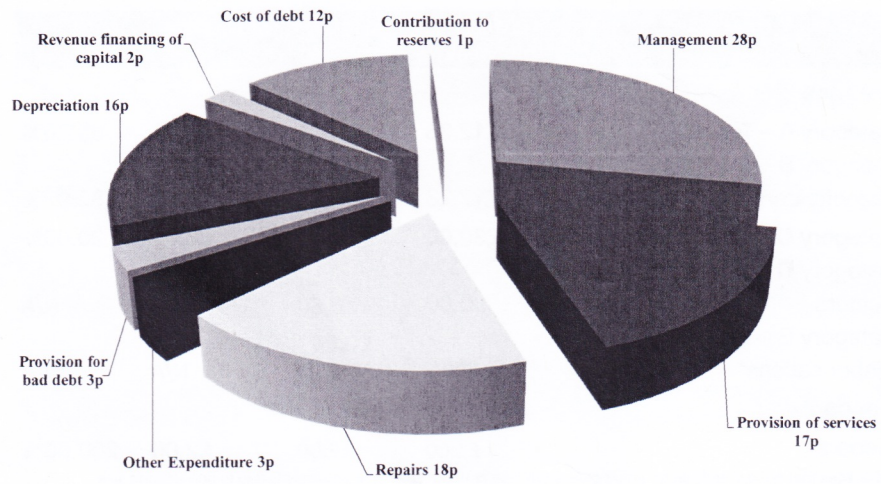
Income: pence per £1 2017/18 Lambeth



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Expenditure: pence per £1 2017/18

Lambeth



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Meeting Timetable

Lambeth

- Tenants' Council ~~30~~ November
- Cabinet Meeting – 16 January

15th DEC

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Supporting Information & FAQs for Rent and Service Charge Setting

More detailed figures behind the pie charts included in the presentation

Item	Pence per £
Dwelling rents	78.23p
Tenant service charges	10.04p
Leaseholder service charges	6.74p
Non-dwelling rents	3.10p
Interest and other income	1.89p
Total	100.00p
Management	27.90p
Provision of services	16.78p
Repairs	17.81p
Other Expenditure	2.96p
Provision for bad debt	2.70p
Contribution to wear and tear expenses	16.29p
Revenue financing of capital	2.01p
Cost of debt	12.59p
Contribution to reserves	0.96p
Total	100.00p

Impact of 1% rent reduction over 4 years (original calculation)

	15/16 £'000	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000
Original Model Rents less voids (CPI + 1%)	135,961	137,101	138,508	139,974	141,454
Revised Rent with 1%pa reduction applied	135,961	134,253	132,814	131,431	130,063
Annual Change in Rent		-2,848	-5,694	-8,543	-11,391
Cumulative Loss in Rent		-2,848	-8,542	-17,085	-28,476
Breakdown of Reduction					
Impact of stripping out CPI + 1%		-1,492	-2,983	-4,475	-5,967
Impact of 1% Reduction		-1,356	-2,711	-4,068	-5,424
Total Impact		-2,848	-5,694	-8,543	-11,391
Breakdown of Cumulative Reduction					
Impact of stripping out CPI + 1%		-1,492	-4,474	-8,949	-14,916
Impact of 1% Reduction		-1,356	-4,068	-8,136	-13,560
Total Impact		-2,848	-8,542	-17,085	-28,476

Service Charge Calculations for 17/18

	Tenant Service Charge Calculations 2017-18	Communal Lighting	Concierge	Disinfestation	Estate Cleaning	Grounds Maintenance	TV Aerial	Caretaking
A	Total cost to council	2,865,261	915,437	574,489	5,943,390	1,276,432	20,417	1,271,642
B	Tenant proportion	69%	80%	86%	70%	69%	86%	70%
C	Tenanted cost (A x B)	1,987,696	732,663	492,201	4,136,427	877,843	17,612	885,026
D	TMD management allowances	190,503	429,556	97,201	750,656	178,387	7,282	20,274
E	Sub-total (C+D)	2,178,200	1,162,218	589,402	4,887,083	1,056,229	24,894	905,300
F	Estimated inflation	87,999	46,954	23,812	197,438	42,672	1,006	18,106
G	Management overhead	226,620	120,917	61,321	508,452	109,890	2,590	184,681
H	Total cost (E + F + G)	2,492,819	1,330,089	674,535	5,592,974	1,208,791	28,489	1,108,087
Cost Per Tenant Workings								
I	Total number of rent accounts receiving the service	17,085	1,403	17,083	17,084	17,086	2,172	17,084
J	Adjustment for void properties	16,812	1,381	16,810	16,811	16,813	2,137	16,811
K	Cost per property per annum (H/I)	148.28	963.45	40.13	332.70	71.90	13.33	65.92
L	Cost per property per week	2.85	18.53	0.77	6.40	1.38	0.26	1.27

Service Charge Calculations for 17/18 – Heating and Hot Water

		Heating & Hot Water
<u>Tenant Service Charge Calculations 2017-18</u>		
Total Costs Workings		
A	Total cost to council	2,193,308
B	Tenant proportion	83%
C	Tenanted cost (A x B)	1,810,205
D	TMO management allowances	209,494
E	Sub-total (C+D)	2,019,699
F	Estimated inflation	81,596
G	Management overhead	210,130
H	Total cost of service delivery (E + F + G)	<u>2,311,425</u>
Cost Per Tenant Workings		
I	Total number of heating & hot water points	38,987
J	Adjustment for void properties	38,363
K	Cost per point per annum (H / J)	60.25
L	Cost per point per week	1.16
M	Average number of points per rent account	9.50
N	Average HHW charge per week	<u>11.01</u>

Service Charge Calculations for 17/18 – CCTV & Door Entry

	CCTV / Door Total	CCTV	Door Entry - Audio	Door Entry - Video
<u>Service Charge Calculation 2017-18</u>				
Total Costs Workings				
A Total cost to council	1,246,256			
B Tenant proportion	70%			
C Tenanted cost (A x B)	867,211			
D TMO management allowances	221,356			
E Sub-total (C + D)	1,088,567			
F Estimated Inflation	43,978			
G Management overhead	113,254			
H Total cost of service delivery (E + F + G)	<u>1,245,799</u>	571,347	553,212	119,144
Cost Per Tenant Workings				
I Total number of rent accounts receiving the service		4,608	7,072	1,004
J Adjustment for void properties		4,534	6,959	988
K Cost per property per annum (H / J)		126.01	79.50	120.60
L Cost per property per week		<u>2.42</u>	<u>1.53</u>	<u>2.32</u>

Service Charge FAQ's and Explanation of movements from prior year

Service charge costs are based on full cost recovery and are based on the actual cost of delivering a service. Usually we take the last full financial year (in this case 2015/16) as the starting point and adjust for factors such as inflation. In some instances we have used an average of more than one previous year in order to reduce the event of fluctuating service charges

Are tenants subsidizing the cost of services delivered to Leaseholders?

The calculations recognise that many of the Council's service contracts also include the cost of services delivered to Leaseholders. Therefore in (B) and (C) the costs in (A) have been reduced to reflect this.

This is calculated with respect to the relative proportion of tenants and leaseholders receiving a service. E.g. if there were 3 tenants and 1 leaseholder receiving a service we would seek to recover $\frac{3}{4}$ of the costs from tenants. The one exception is Caretaking which simply uses the same proportion as estate cleaning as Leaseholders do not have a separate cleaning & caretaking charge.

Why are further costs included in relation to TMO allowances?

This is to reflect the fact that as well as well as delivering a service itself, the Council also pays a management allowance to TMO's to deliver services and this therefore forms part of the Council's total cost of services delivered to tenants. If these costs were not included then rent payers would effectively be subsidizing the cost of services delivered on TMO managed estates.

Why is inflation added to some of the costs?

The calculations are using historical costs (e.g. 2015/16 costs) in order to estimate the cost of service delivery in 2017/18 and often contracts include an inflationary uplift. Any inflationary increases are therefore based on 2 years' worth of uplift – from 2015/16 to 2017/18.

For the majority of the services this has been included at 2% per annum, compounded for 2 years, which gives a total inflation over the two year period of 4.04%.

Why do the calculations include a management overhead?

This is to reflect the fact there are costs associated with activities such as procuring and managing contracts, and taking that one step further those officers involved in these activities will need equipment, a desk and will work within a council premises etc. If an estimated amount for overheads weren't included then rent payers would be subsidising these costs on behalf of those tenants receiving a service.

Why is there an adjustment for void properties?

This is to reflect the fact that at any given time of the year a certain number of properties will be void and therefore not making a contribution to the cost of service delivery. Without this adjustment there would be a shortfall in cost recovery and again this would effectively be subsidised by rent payers. The calculations assume a void rate of 1.6%.

Why are there increases or decreases on previous years' service charges?

There are a number of different reasons why there might be changes;

Some elements of the cost of service provision may be variable (for example responsive repairs to CCTV and door entry systems) and contracts often also include inflationary increases, hence costs will have increases since the previous year assuming that overall level of demand remained the same.

The current year's calculations benefit from a lower void rate than the previous year, meaning that there are a relatively higher number of active rent accounts over which to share the associated cost of delivering a service.

Some types of cost such as energy prices are particularly difficult to predict as they include variable elements, consumption will be impacted by annual weather conditions, costs are impacted by changes in wholesale energy markets and also changes in government policy can impact upon the cost of standing charges. Many meters will also be billed based on estimated charges and there may be subsequent variations between estimated and actual billing.

The council is proposing an increased service charge for concierge and CCTV and Door Entry for 2017/18.

The proposed overall decrease for "common service charges" is 3.13%, with a much larger average decrease for heating and hot water of 26.7%

Why has the concierge charge increased?

A report to Housing Scrutiny Sub-Committee in October 2012 suggested a three year increase of £3.10 per week to bring the charge up to £18.64 in line with total costs.

This was superseded by a report in October 2013 which suggested the increases for 2014/15 and 2015/16 should be 66p, which brought the figure to a charge of £13.76 in 2015/16

This second report was based on cost figures that excluded costs related to services delivered by two TMO's (Holland Rise and Loughborough EMB) and therefore the current charge does not fully recover costs

To bring the charge to full cost recovery, the proposal last year was to increase the charge by £5.15 per week. This was proposed to be staggered over two years with an increase of £2.58 per year for 2016/17 and 2017/18.

The current year's calculations for 2017/18 are slightly less than this with a proposed increase of £2.19 per week, bringing the total charge to £18.53 per week.

Why have the CCTV and Door Charges increased?

CCTV and Door entry contracts include responsive repair elements which means that costs can vary from year to year.

Why has the Heating & Hot Water charge decreased by such a large proportion?

The cost of procuring gas for heating and hot water was significantly reduced in 2015/16. The cost reduction occurred as a result of favourable conditions in the wholesale market and also the event of a relatively mild winter can have the effect of reducing gas usage.

The reduction in service charges for 2017/18 enables this cost reduction to be passed on to tenants.

Why is Heating & Hot Water presented as an average figure?

This because the actual charge to tenants will vary depending on the number of Heating & Hot Water points in the property, the cost per point has been calculated as £1.16. On average each property has 9.5 heating and hot water points but there will be more in less in each property hence the charge to each tenant will differ.

What is a Heating & Hot Water point?

Points reflect the number and type of rooms that have direct heating or hot water and those that do not, but benefit from that in other rooms in the property. Each room is allocated a number of points and they are added together to arrive at the total number of points for the property.

Why are CCTV and Door Entry costs combined in the calculations?

CCTV and Door Entry is delivered via a combined contract and the nature of the contract pricing does not enable the separation of the cost into its different elements. As a result the service charge for each is moved up / down proportionately.