

Appendix A



Item No: 14b	Housing Revenue Account (HRA) Rent Increase Forecasts for 2010/11 and Draft 2010/11 Budgets for the HRA
SHL Board	7 th January 2010
Key Strategic Objective	To provide value for money services that focus customer needs
Confidential	For information
Report Lead Desmond Gray Interim Finance & Compliance Director	Report Author Brian Dillon Interim Business Manager Finance

Executive Summary

To consider the proposed rent increases for Housing Revenue Account (HRA) dwellings for 2010/11 based on the Government's assumptions contained in the draft housing subsidy determination.

To consider the implications of the draft housing subsidy determination and other forecast data on the HRA Estimates.

Recommendations

1. That the Board agrees the proposed average rent increase of 1.72% for 2010/11 and recommends its approval by SBC
2. That the Board agrees the attached schedule of HRA fees & charges for 2010/11 and recommends their approval by SBC
3. That the Board notes the 2010/11 budget for the HRA and recommends it for approval by SBC.

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1.0	INTRODUCTION
1.1	The 2010/11 financial projections used in this report are based on the draft housing subsidy determination sent to the Council by the Government Department for Communities and Local Government (CLG) on 9 th December 2009 the forecasting price parameters advised to SHL by the Council agreed growth and savings.
2.0	HOUSING SUBSIDY
2.1	Based on the data contained in the draft housing subsidy determination there will be a Subsidy Withdrawal in 2010/11 of £18,568,260 compared to the 2009/10 Forecast Outturn for Subsidy Withdrawal of £17,781,690. Therefore overall the HRA will bear the cost of an additional £786,570 as Housing Subsidy Withdrawal in 2010/11.
3.0	BACKGROUND TO RENT SETTING
3.1	In 2002/03 the Government introduced formula-based rent setting for social landlords. In the case of local housing authorities the new system was tied into the housing subsidy calculation so that failure by a Council to set the local rent increase in line with the subsidy rent assumption would result in a loss of income to the HRA. Local discretion in rent setting was therefore effectively lost by councils from that date.
3.2	The objective of the new system was, over a 10 year term, to gradually converge social housing rents charged by UK social landlords so that by 2011/12 the rent for similar types of property in the same geographical region would be the same whether offered by a local authority or a housing association.
3.3	SBC has been applying the Government's Rent Restructuring policy since 2002/03 and therefore 2010/11 will be the ninth year of implementation. The draft housing subsidy determination for 2010/11 has set 2013/14 as the year of convergence and therefore the Council has 3 more years to achieve that target date.
3.4	Some of the key estimates and assumptions used in this report are based on the information contained in the draft housing subsidy determination. They could change if the final subsidy determination diverges materially from the draft determination.
3.5	In 2003/04 the Council introduced the collection of Rent and Service Charges over a 50 week period (i.e. operating 2 'rent free' weeks). However all of the weekly figures referred to in this report are based on a standard 52 week year.

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4.0	PROPOSED RENT INCREASE FOR 2010/11
	Timetable
4.1	The Government's final housing subsidy determination is normally sent to the Council in mid-December. This enables the Council's formal scrutiny and approval process - Executive, Scrutiny Overview, special Executive and Special Scrutiny Overview – to take place in December and January.
4.2	For the 2010/11 cycle the final determination will not be received until February 2010 and therefore the above meetings will be reviewing draft data only for considering the HRA Budget 2010/11, the SHL Management Fee 2010/11 and the rent increase 2010/11.
4.3	The Council must give 28 days notice to tenants prior to making any changes to their rents and for the new rents to take effect in the first week of April (Monday 5 th) this notice must be despatched before the end of February.
4.4	Therefore the 2010/11 rent increase must be approved by the Council by the end of January to allow sufficient time for the detailed rent and charges calculation to be completed and verified before the final rent notices are sent to tenants in early March. This decision will of necessity be based on the "best information available" to the Council at its extraordinary meeting on 27 th January 2010.
4.5	Impact on the HRA of the Rent Increase The draft determination advises that nationally the average increase in rents for 2010/11 over 2009/10 will for housing subsidy purposes be set at 3.1%. For the Council the local increase in this "subsidy rent" will require the HRA to pay an additional £1,016,730 to the Government in housing subsidy withdrawal.
4.6	However the actual average rent increase for any local authority will depend on the impact of the rent restructuring formula on each tenancy. In the case of SBC dwellings the average real rent increase for 2010/11 over 2009/10 will be 1.72%. This will generate £553,370 in additional rent income to the HRA in 2010/11.
4.7	This divergence between the Government's subsidy rent assumption and the real rents calculated by the Council will cost the HRA a net £463,360 in 2010/11. This net loss can be recovered in the 2011/12 housing subsidy claim through adjustments to the caps and limits in the subsidy rent calculation.

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Rent Estimates			
Financial Year	Net Income for Year £	Average Rent P/Wk £	% Rent Change over 2009/10
Revised Budget 2009/10	32,455,060	78.10	
Forecast 2009/10	32,253,260	78.10	
Budget 2010/11	32,806,630	79.44	1.72%

5.0	HRA 2009/10 FORECAST AND 2010/11 ESTIMATES BUDGET																		
5.1	The HRA 2009/10 Forecast and 2010/11 Estimated Budgets are attached at Appendix A. These are reflected in the HRA balance as follows: <table border="1" data-bbox="305 919 1339 1272"> <thead> <tr> <th>Summary of HRA Budgeted Reserves</th> <th>Forecast 2009/10 £</th> <th>Estimate 2010/11 £</th> </tr> </thead> <tbody> <tr> <td>Balance brought forward 1st April</td> <td>2,095,257</td> <td>1,617,626</td> </tr> <tr> <td>Use of Balances in the Year</td> <td>(477,631)</td> <td>(693,206)</td> </tr> <tr> <td>Balance carried forward 31st March</td> <td>1,617,626</td> <td>924,420</td> </tr> <tr> <td>SBC Required Minimum Balance carried forward 31st March</td> <td>(800,000)</td> <td>(800,000)</td> </tr> <tr> <td>Surplus/(Deficit) on agreed minimum</td> <td>817,256</td> <td>124,420</td> </tr> </tbody> </table>	Summary of HRA Budgeted Reserves	Forecast 2009/10 £	Estimate 2010/11 £	Balance brought forward 1 st April	2,095,257	1,617,626	Use of Balances in the Year	(477,631)	(693,206)	Balance carried forward 31 st March	1,617,626	924,420	SBC Required Minimum Balance carried forward 31 st March	(800,000)	(800,000)	Surplus/(Deficit) on agreed minimum	817,256	124,420
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5.2	Subject to any material change in the final subsidy determination, current forecasts indicate that the HRA balances will remain comfortably above the SBC minimum required level.																		
5.3	The above forecast budget for 2010/11 includes 1% inflation on the SHL management fee, and a 1% increase in SBC recharges into the HRA as set out below in Section 6.																		
5.4	Further improvements to the HRA surplus could be achieved by recovering from leaseholders the full cost to SHL of administering their service charges.																		
6.0	SHL MANAGEMENT FEE PAID BY THE HRA																		
6.1	The proposed fee for 2010/11 is £14,605,420, calculated using an inflationary increase of 1% on the SBC-agreed Revised Budget and adjusted for approved growth and savings.																		

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6.2	<p>The other primary source of fee income for SHL is the charge to the HRA capital investment programme for supervision and technical services. These are estimated as:</p> <table border="1" data-bbox="305 537 1265 816"><thead><tr><th data-bbox="305 537 716 678"></th><th data-bbox="716 537 894 678">Revised Budget 2009/10 £</th><th data-bbox="894 537 1089 678">Forecast 2009/10 £</th><th data-bbox="1089 537 1265 678">Proposed 2010/11 Budget £</th></tr></thead><tbody><tr><td data-bbox="305 678 716 816">Fees charged to HRA Capital Investment Programme</td><td data-bbox="716 678 894 816">675,800</td><td data-bbox="894 678 1089 816">1,415,600</td><td data-bbox="1089 678 1265 816">1,338,400</td></tr></tbody></table>		Revised Budget 2009/10 £	Forecast 2009/10 £	Proposed 2010/11 Budget £	Fees charged to HRA Capital Investment Programme	675,800	1,415,600	1,338,400
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7.0	RECOMMENDATIONS								
7.1	That the Board agrees the proposed overall rent increase of 1.715% for 2010/11 and recommends it for approval by SBC								
7.2	That the Board agrees the schedule of HRA fees & charges for 2010/11 and recommends it for approval by SBC								
7.3	That the Board notes the 2010/11 draft budget for the HRA and recommends it for approval by SBC.								

If you have any questions about this report then please contact Brian Dillon or Desmond Gray on 01438 242375.