

Meeting: EXECUTIVE / COUNCIL

Council
agenda item:

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Portfolio Area: Housing

Date: 17 JANUARY 2012 / 25 JANUARY 2012

HOUSING REVENUE ACCOUNT (HRA) RENT SETTING FOR 2012/13

KEY DECISION

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1. PURPOSE

1.1 For the Executive and Council to receive the Final Housing Revenue Account Budget and Rent Increase for 2012/13.

2. RECOMMENDATIONS

EXECUTIVE

2.1 That, the following recommendations be approved and submitted to Council on 25 January 2012:-

2.1.1 That the rents of HRA dwellings be increased, with effect from the week commencing 4 April 2011 by 7.8% in accordance with the Government's Revised National Rent Restructuring Formula, subject to the Government's caps and limits applicable to each property.

2.1.2 That the HRA Savings Options (as shown at **Appendix C**), of £1,139,780 in 2012/13, as summarised in paragraph 4.3 of this report be approved and incorporated into the HRA budgets.

2.1.3 That the HRA Growth Options (as shown at **Appendix D**), of £223,320 in 2012/13, as summarised in paragraph 4.4 of this report be approved and incorporated into the HRA budgets.

2.1.4 That the revised HRA budget for 2011/12 and the draft 2012/13 HRA budget be approved (**Appendix A**).

2.1.5 That the 2012/13 HRA Fees and Charges (as shown in **Appendix G**) be approved.

2.1.6 That the contingency sum of £400,000 within which the Executive can approve supplementary estimates, be approved for 2012/13.

COUNCIL

- 2.2 Recommendations arising from the Executive held on 17 January will be circulated on a supplementary agenda following that meeting.

3. BACKGROUND

3.1 Rents

3.1.1 In 2002/03 the Government introduced its Rent Restructuring policy which was intended to converge the rents of all social landlords over a ten year period, in order that rents of tenants in similar Council or Register Social Landlord (RSL) properties would be the same by the end of the period. As at 2011/12, the draft subsidy determination now shows a four year convergence period. This is two years longer than contained within the 2010/11 subsidy determination.

3.1.2 The methodology for rent convergence is based on a formula which limits a maximum of Retail Price Index (RPI)+0.5%+£2. Although it was originally envisaged that all properties would reach their target rent in 10 years or by 2011/12, this is now projected to be by 2016/17.

3.1.3 The HRA Draft Rent Setting report (December Executive) recommended an increase of 7.8%. The Executive did not approve the draft rent increase and asked officers to review the 2012/13 rental charge and the impact on the 30 year business of any reduction later proposed. The projected rent increase is relatively high for 2012/13 because the RPI used in the formula was based on September 2011, 5.6%.

3.1.4 Following a joint Finance and Housing Scrutiny Committee on the 15 December 2011 It was resolved that the Chair of the Housing Scrutiny and Resources Scrutiny Panels meet with the Executive Portfolio Holder for Housing and Officers in January 2012 with a view of considering a number of options regarding the level of rent increase for 2012/13.

3.2 Self- Financing for the HRA

3.2.1 In February 2011 the coalition government announced their intention to enact changes to the subsidy system which were initially consulted on under the previous Labour government.

3.2.2 In November 2011 Members were updated on the impact of 'self financing' on the HRA, which identified that the self financing settlement (the amount that will physically need to be paid to the Government at the start of 2012-13) for Stevenage Borough Council (SBC) was £211 million. This was based on 8,298 properties and assumptions about the income from rents over the next thirty years, less an assumed allowance for spending on management,

maintenance and major repairs, to arrive at an estimated amount of surplus that will be generated from the housing stock. Since publication of the report the draft final settlement has been issued and now totals £200 million, which includes an adjustment for the decent homes debt which should reduce the final settlement by £17.7 million as agreed with the government.

3.2.3 In the November report Members approved a number of policy decisions which impact on the HRA. These included:

- Recycling of borrowing headroom, as repayments are made from the principal of the initial borrowing undertaken, either for capital investment purposes (major works to existing stock), estate re-developments, or new build programmes.
- That a Treasury Management objective is approved with the aim to repay all of the debt within the life of a 30 Business Plan.
- That any gains achieved from the management of the debt portfolio is used to repay debt and to provide further investment in housing.
- That the Council's objective is to meet the Stevenage Decent Homes standard for all of its Council Housing Stock under self-financing in accordance with the original business plan model.
- That an updated Housing Business Plan be presented to the Executive at the earliest opportunity that sets out how the Council will manage its stock and deliver its housing services, in line with the key housing objectives.
- That all future Right To Buy receipts (net of pooling) from the 1 April 2012 are made fully available to the HRA Business Plan.

3.3 The Return of the Housing Function to SBC

3.3.1 At the Council meeting on the 22 September 2011 Members approved the return of the housing function to the Council, with effect from the 1 December 2011. Included within the 2012/13 HRA budget assumptions are savings relating to this transfer.

3.4 HRA Savings Options

3.4.1 A number of savings proposals were approved at the December Executive, these totalled £1,139,780 for 2012/13.

3.5 HRA Growth bid

3.5.1 A number of growth bids were approved at the December Executive, these totalled £183,320 for 2012/13.

3.6 HRA Balances

3.6.1 The HRA balances projected for 31 March 2013 were reported as £3,627,381 at the December Executive.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Timetable

4.1.1 The Rent setting timetable (allowing for notice, implementation, scrutiny and approval) requires the draft and final proposals to be considered by the Executive and Joint Housing and Resources Scrutiny Panels before final approval at the Council meeting on 25 January 2012.

4.2 HRA Rent Increase Proposals for 2012/13 and Scrutiny

4.2.1 Officer proposals for increasing the 2012/13 rents are based on following the formula of HRA dwellings, in line with the Government's Rent Restructuring policy. This formula would require a £6.49 increase per week to be agreed (based on 52 weeks) or an average of 7.8% as detailed in Table One below:

Table One Formula Average Rent Increase 2012/13

Rent:	Rental value	% increase/ (decrease)
Average Rent 2011/12	£80.79	
Add inflationary increase	£4.96	+6.1%
Add average rent restructuring increase	£1.62	+2.0%
Overall Increase	£6.58	+8.1%
Total Rent 2012/13	£87.37	
Service Charge:		
Service charges 2011/12	£2.37	
Less adjustment	£(0.09)	(2.98%)
Total Service Charge 2012/13	£2.28	
Total Rent and Service Charge	£89.65	
Total Increase	£6.49	+7.8%

4.2.2 At the December Executive Members raised concerns about the level of the rent increase proposed and requested that the Executive Portfolio Holder for Housing consider with officers the issues around the outcome of the calculation of the rent increase for 2012/2013 based upon the Government's Revised National Rent Restructuring Formula and report back to the Executive on the outcome.

4.2.3 The Joint Housing and Resources Scrutiny Panel on the 15 December 2011 also raised concerns regarding the level of the weekly rent increase and resolved that Chairs of the Housing and Resources Scrutiny Panels meet with the Executive Portfolio Holder for Housing and Officers in January 2012 with a view of considering a number of options regarding the level of rent increase for 2012/13.

4.2.4 A meeting was held on the 4 January 2012, where the level of rent increase and associated impacts were discussed. The key points covered were as follows:

- The self financing debt settlement assumes rents would increase in line with the rent formula.
- There are no statutory powers to prevent Members approving a rent increase which is different to the national formula rent policy.
- Members should be aware that with the introduction of self financing and the take on of £200 Million of debt, Members have an obligation to consider the long term position of the HRA Business Plan.
- That not following the national rent convergence policy would increase future years rents, as a decision to reduce the calculated increase for 2012/13 would have the net effect of deferring the percentage reduction into future years rent increases.
- Not following National Rent Policy could impact on ability to access future Decent Homes grant.
- The capital programme of works for the Council's housing stock only provides funding to maintain the existing standard of the housing stock. A rent reduction below the formula would limit the Council's ability to go beyond this standard.

4.2.5 Members considered the implications of departing from the national rent policy (identified above) and asked officers to consider the impact of a lower rent increase on the 30 Year Business Plan. Officers advised Members that for each 1% reduction in the rent increase there would be £356,910 less rental income in the HRA.

4.2.6 As part of the discussions Members wished to consider the matter further within their political group before reaching a final decision. Members also identified the need for an additional officer to help Council tenants to minimise their debts and maximise the benefits claimed. A growth bid of £40,000 has been included in the final 2012/13 HRA budgets (**Appendix A**).

4.3 Savings Option

4.3.1 The 2012/13 HRA savings options of £1,139,780 remain unchanged from the December report. The savings are shown in **Appendix C**.

4.4 HRA Growth bids

4.4.1 The 2012/13 HRA growth bids of £188,320 have been increased by £40,000 to fund a Debt Advisory and Benefit Take Up Officer. The HRA growth bids now total £228,320. The growth bids are shown in **Appendix D**.

4.5 HRA Balances

4.5.1 The 2011/12 projected HRA balances as at 31 March 2012 have increased from £4,098,160 to £4,371,230 an increase of £273,070. The main reason for the increase in the 2011/12 projected budget is a

return of SHL company balances (£325,000) as a result of 2011/12 projected under spends. There is a further £370,470 remaining in the SHL company accounts to fund any one off costs as a result of the return of housing to Stevenage Borough Council. The 2011/12 variances are summarised in Table Two below.

<u>Table Two - HRA Projected Balances</u>	2011/12 £
Balance Brought Forward	(3,685,310)
November HRA budget	(412,850)
Final Budget	(685,920)
Increase in (surplus)/deficit	<u>(273,070)</u>
Balance Carried Forward	(4,371,230)
Return of SHL in year under spends	(325,000)
HRA share of single status implementation costs	33,080
Temporary accountancy support for the HRA	10,140
One off costs relating to General Fund savings in 2012/13	8,710
Recharge adjustments and other	
Total Variances	<u>(273,070)</u>

4.5.2 The 2012/13 projected HRA balances as at 31 March 2013 have increased from £3,627,380 to £3,735,070 an increase of £107,690. Of which £273,070 (surplus) relates to 2011/12 variances, the remaining difference of £165,380 (increase) relates to:

- Increase in the growth bids of £40,000 for a Debt Advice and Support Worker
- Cost of Single Status implementation for the HRA in 2012/13, £13,000 (increase)
- A reduction in the 2012/13 rent projection based on current stock numbers and void levels, £132,400 (decrease).

4.5.3 The increase in net expenditure for 2012/13 increases the value of unfinanced capital expenditure over the life of the 30 year business plan from £3Million to £3.4Million. The changes to the 2012/13 budget are summarised in Table Three below:

<u>Table Three – 2012/13 HRA Balances</u>	2012/13 £
Balance Brought Forward	(4,371,230)
November HRA budget	470,780
Final Budget	636,160
Increase in (surplus)/deficit	<u>+165,380</u>
Balance Carried Forward	(3,735,070)
Increase in Growth Bids	40,000
HRA share of single status implementation costs	13,000
Adjustment to rent projection	+132,400
Recharge adjustments and other	(20,020)
Total Variances	<u>+165,380</u>

4.5.3 The HRA balances as at 31 March 2013 are projected to be £3,735,070 which is higher than the risk assessment of balances for 2012/13 (£3,594,237), (see **Appendix B**, Risk Assessment of Balances and **Appendix E** updated HRA Debt profile). However, there are further risks which have not been assessed for the 2012/13 HRA balances but include :

1. Realising Right To Buy receipts to fund the programme in the business plan model (£11.6Million over the next 30 years) as a result of government consultation on RTB discount and pooling changes.
2. There are capital works of £3.4Million which are currently unfunded in the 30 year business plan (2023/24, 2024/25, 2025/26), see also **Appendix F**.
3. Future years Decent Homes funding may not be realised from the government.
4. Borrowing costs for future years could be in excess of the assumptions in the Buisness Plan.
5. Unforeseen capital works may be required during the 30 year Business Plan which may impact on the Council's ability to repay the outstanding debt.
6. Impact of the universal credit on rent arrears and collection rates from 2013/14 onwards.

4.6 Consultation

- 4.6.1 A range of consultations on the financial position of the HRA has been conducted throughout 2011 and presentations from both SHL and SBC staff have been made to tenant and leaseholder groups including the housing customer panel, FoSTA and Leaseholder forums.
- 4.6.2 SHL held a 'Customer Conference' in July 2011 at which tenants and leaseholders were able to put forward ideas for savings and also identify their priorities for service provision. The feedback from this event has been taken into account in compiling the savings proposals within this report.
- 4.6.3 Consultation on proposals to staffing structures as part of the integration of housing services into the Council will be carried out in line with the Council's (and SHL's) Managing Organisational Change policies.
- 4.6.4 A presentation was given to FOSTA on the 4 January 2012 summarising the impact of self financing, the savings and growth options recommended for the HRA in 2012/13 and the formula rent calculation. Consultation will continue throughout the budget setting process and feedback that the Council receives as part of this engagement will fed into the budget. Information about how the

community have been, and can continue to be, involved in the process will be included in any communications around the proposals.

5. IMPLICATIONS

5.1 Financial Implications

5.1.1 As in the body of the report and as detailed in the Stevenage Homes Ltd report attached.

5.2 Legal Implications

5.2.1 The powers of local housing authorities to set rents are laid down in the Housing Act 1985 ('the 1985 Act'), as amended, and provide that : -

- A local housing authority may make such reasonable charges as they may determine for the tenancy or occupation of their houses.
- The authority shall from time to time review rents and make such changes, either of rents generally or of particular rents, as circumstances may require.

5.3 Equality and Diversity Implications

5.3.1 In carrying out or changing its functions (including those relating to the provision of services and the employment of staff) the Council must comply with the Race Relations Act (section 71), the Sex Discrimination Act (section 76A) and the Disability Discrimination Act (section 49A). In order to comply with the duties the Council must ensure it can demonstrate that due regard has been given to the needs described in the legislation in the decision making process. These duties are non delegable and must be considered by Council when setting the budget in January 2012.

5.3.2 To inform the decision officers have undertaken Equalities Impact Assessments (EIA) for service-related budget savings proposals that are considered to have a potentially negative impact. These are appended to this report at Appendix H.

5.3.3 An impact assessment for the rent increase is currently being produced and will be circulated to Members (Appendix I, to follow).

BACKGROUND DOCUMENTS

2012/13 HRA Self Financing Determination.

2012/13 Draft Rent Setting Report (December Executive 2011)

APPENDICES

Appendix A HRA budgets

Appendix B Risk Assessment of Balances

Appendix C Savings Options

Appendix D Growth Options

Appendix E Updated Debt Profile for the Business Plan

Appendix F Capital Works projected in the 30 Year HRA Business Plan

Appendix G Fees and Charges

Appendix H Equalities Impact Assessment-savings

Appendix I Equalities Impact Assessment –rents (to follow)