

Meeting: EXECUTIVE / COUNCIL

Council
Agenda Item:

2

Portfolio Area: Housing

Date: 15 JANUARY 2013 / 23 JANUARY 2013

HOUSING REVENUE ACCOUNT (HRA) BUDGET AND RENT SETTING FOR 2013/14

KEY DECISION

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1. PURPOSE

- 1.1 For the Executive and Council to approve the Housing Revenue Account Budget and Rent Increase for 2013/14.

2. RECOMMENDATIONS

EXECUTIVE

- 2.1 That, the following recommendations be approved and submitted to Council on 23 January 2013:-
 - 2.1.1 That the rents of HRA dwellings be increased, with effect from the week commencing 1 April 2013 by an average 5.1% in accordance with the Council's rent policy.
 - 2.1.2 That the HRA Savings Options (as shown at Appendix C), of £239,080 in 2013/14, 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 £315,000 in 2013/14, 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 2012/13 and the final 2013/14 HRA budget be approved (Appendix A).
 - 2.1.5 That the 2013/14 HRA Fees and Charges (as shown in Appendix F) be approved.

- 2.1.6 That the contingency sum of £400,000 within which the Executive can approve supplementary estimates, be approved for 2013/14.

COUNCIL

- 2.2 Recommendations arising from the Executive held on 15 January 2013 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. The increase in annual rent is based on a formula which is a maximum of $RPI+0.5\%+\pounds 2$.
- 3.1.2 The use of the formula rent increase is not a statutory requirement, however Members will be aware that the HRA business Plan was predicated on following the formula rent policy and the rent increase has been proposed in line with the Council's approved rent policy. For the 2012/13 rental increase Members reduced the planned formula rent increase by 1%.
- 3.1.3 The December Executive considered the rent increase and noted the reasons for holding higher than minimum balances (see also paragraph 4.2.3) and approved the rent increase of 5.1% for 2013/14.

3.2 Self- Financing for the HRA

- 3.2.1 The HRA has undergone significant change in the last 12 months with the abolition of the housing subsidy system and the introduction of self financing on the 1 April 2012.
- 3.2.2 The HRA now keeps 100% of all rental income which under the old subsidy system was not the case, the price for this was a one-off payment to the government of £199Million, in effect the Council had taken a mortgage out on the housing stock. This debt together with the Decent Homes loans will be repaid by 2039/40 and will cost £7,177,350 to service in 2013/14.
- 3.2.3 The HRA has a financial business plan on which the debt repayment schedule is based Appendix E. Members have also approved the Rent and Annual Service Charge Setting Policy (Council – 10 October 2012) and a comprehensive HRA Business Plan (Executive 20 November 2012).

3.3 The Budget and Policy Framework

3.3.1 Budget and Policy Framework Procedure Rules in the Constitution, prescribe the Budget setting process, which includes a minimum consultation period of three weeks. The timescale required to implement this process is outlined below:

- 11 December 2012 Executive proposed draft HRA Budget and Rent Increase
- 12 December 2012 Housing and Resources Development and Scrutiny Committees considered the draft Budget
- 15 January 2013 Executive considers Resources Development and Scrutiny Committee comments and recommends Budget to Council
- 23 January 2013 Council approves the HRA Budget and Rent Increase

3.4 HRA Savings Options

3.4.1 A number of savings proposals were approved at the November Executive, which totalled £239,080 for 2013/14.

3.5 HRA Growth bid

3.5.1 A number of growth bids were approved at the November Executive, which totalled £315,000 for 2013/14.

3.6 HRA Balances

3.6.1 The HRA balances projected for 31 March 2014 were reported as £8,260,262 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 23 January 2013.

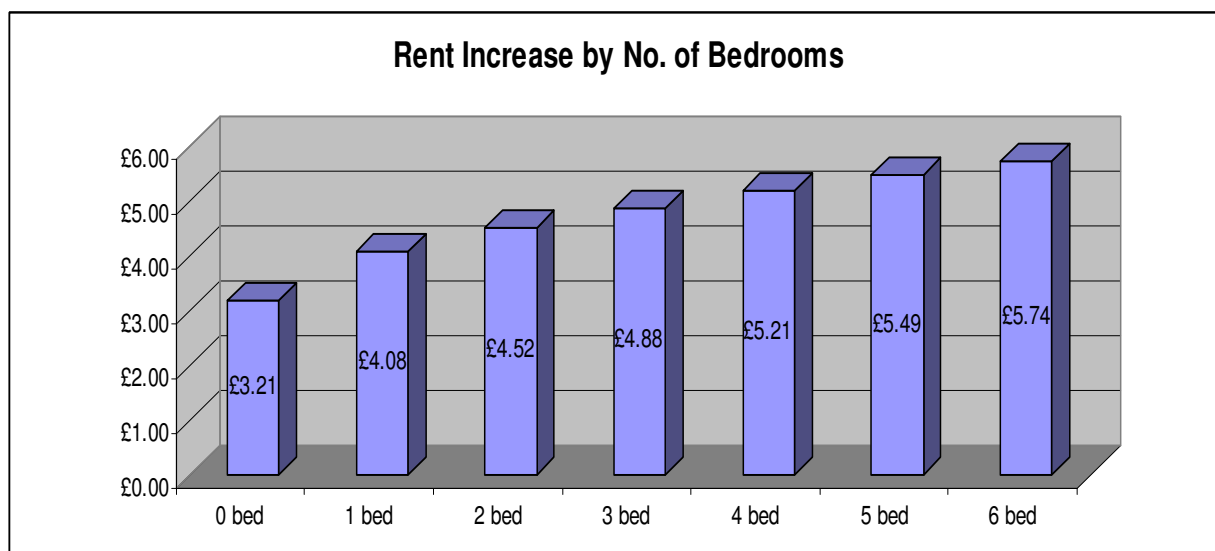
4.2 HRA Rent Increase Proposals for 2013/14 and Scrutiny

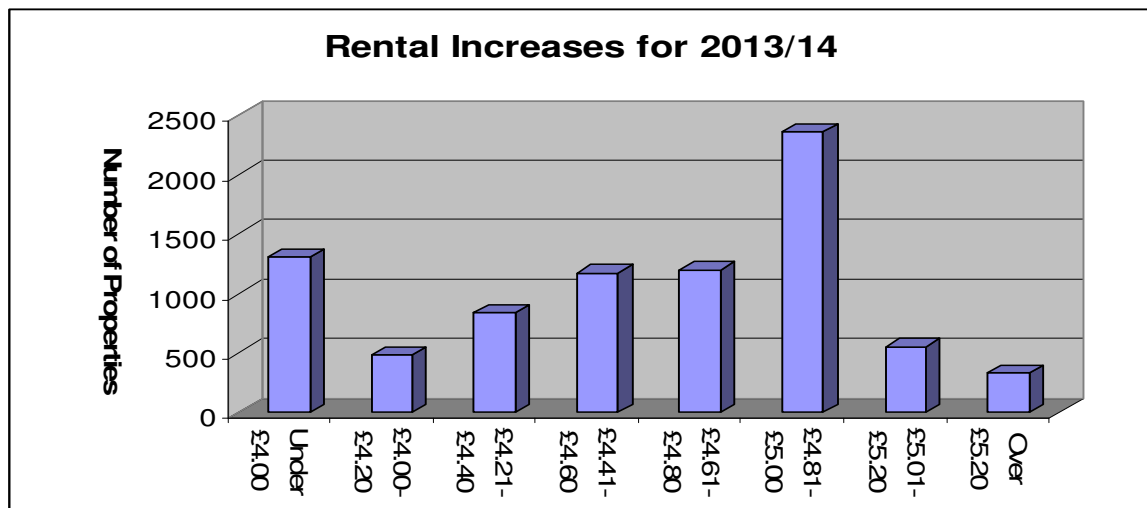
4.2.1 Officer proposals for increasing the 2013/14 rents are based on following the formula of HRA dwellings, in line with the Council's rent policy which uses the Government's Rent Restructuring formula. This formula would require a £4.53 increase per week to be agreed (based on 52 weeks) or an average of 5.1% as detailed in Table One below:

Table One Formula Average Rent Increase 2013/14

Rent:	Rental value	Increase/ (decrease) %
Average Rent 2012/13	£86.80	
Add inflationary increase	£2.69	3.10%
Add average rent restructuring increase	£1.80	2.07%
Overall Increase	£4.49	5.17%
Total Rent 2013/14	£91.29	
Service Charge:		
Service charges 2012/13	£2.02	
Add increase in charges	£0.04	1.98%
Total Service Charge 2013/14	£2.06	
Total Rent and Service Charge	£93.35	
Total Increase	£4.53	5.10%

4.2.2 The average price increase by property type (number of bedrooms per property) and the range of rent increases are shown in the two charts below.





4.2.3 At the December Executive Members agreed the rent increase for 2013/14 but wanted to arrange an Executive session to understand the inflationary pressures within the HRA going forward in order to take future rent increase decisions. Members also wanted to arrange a seminar for all Members on the steps being taken to support income maximisation for tenants and residents, once the impact of the welfare benefit reforms are evident.

4.2.4 The Joint Housing and Resources Scrutiny Meeting on the 12 December 2012 raised concerns regarding the level of the weekly rent increase. Officers advised Members that while there were higher balances held in the HRA than required as a minimum there are significant risks to the HRA income with the introduction of the Universal Credit. Currently 54% or £20Million of HRA rental income is Housing Benefit which will become payable directly to tenants instead of the HRA. Universal Credit will be phased in over the period October 2013 to 2017 and the full impact may not be felt for a few years.

4.2.5 The estimates presented to Members did not include any use of HRA balances for new build schemes, this has been included in the final HRA budget in Appendix A.

4.3 Savings Option

4.3.1 The 2013/14 HRA savings options of £239,080 remain unchanged from the December report. The savings are shown in Appendix C.

4.4 HRA Growth bids

4.4.1 The 2013/14 HRA growth bids of £315,000 remain unchanged from the December report. The savings are shown in Appendix D.

4.5 HRA Balances

4.5.1 The 2012/13 projected HRA surplus is now projected to be £826,520 which is a decrease of £398,260, over that previously reported at the December Executive. The main increase in expenditure relates to an increase in the Revenue Contribution to Capital for the HRA's new build programme, (approved at December Council). The 2012/13 projected year end balance for the HRA is now £6,592,232.

Table Two changes to the 2012/13 HRA budget

Description	£	Comment
December Reported surplus	(1,224,780)	
Revenue Contribution to Capital (RCCO)	411,390	Increased RCCO to fund new build programme approved in December 2012 (£388,000) and cost of additional staff to support delivery of the capital programme (£23,390).
Recharge Changes	67,680	The Cost of Democracy Charge and Corporate Management Costs have been reviewed for 2012/13 and the cost to the HRA has increased.
Apprentices costs	6,490	Additional cost of apprentices for the HRA based on two new posts and a review of apprentice pay
BMO additional costs	3,070	Cost of one new apprentice and a review of apprentice pay
Reduction in Rental Income	27,200	There were 10 RTB's in November and a further 5 in December up to the 17 December.
Carry Forward- Housing Stock Surveys	(100,000)	The first phase has been commissioned (£75,000) and paid in 2012/13, but further work will be required in 2013/14.
Increase in Investment interest	(17,570)	Higher investment interest as a result of higher cash balances attributable to the HRA
Total Changes	398,260	Total value of all the changes listed above
Post December Budget	(826,520)	

4.5.2 The projected HRA surplus for 2013/14 has decreased by £391,660 to £878,110. The reasons for the movement are summarised in the following table –

Table Three changes to the 2013/14 HRA budget

Description	£	Comment
December Reported surplus	(1,269,770)	
Deminimus capital	25,000	There is no budget in the HRA for deminimus capital expenditure, (the General Fund has an earmarked reserve).
Salary adjustments	(3,460)	Minor changes to budgeted pay
Changes to Recharges (BMO)	29,510	Increase in charges including Trade Waste based on current levels of activity
Recharge Adjustments	77,680	Recharge adjustments from the General Fund including higher recharge for Corporate Management
Technical Assistance to Capital income	303,090	The calculation has been reviewed for 2013/14 based on the current establishment resulting in a lower charge to capital (£316,190) but increased for one new apprentice (£13,100).
Interest payments	(54,370)	Debt rescheduling costs of £20,000 were initially included but not required and the internal borrowing of £740,000 has been assumed for a further year, rather than PWLB debt.
Housing Apprentices	39,300	Increase in costs for three new apprentices
BMO Costs	25,360	Cost of new apprentices
RCCO	(209,090)	Less RCCO is required for the capital programme as the (1) technical assistance fee is lower (£316,190) (2) Cost of apprentice recharged to capital (£13,100) (3) Additional contribution to New Build Programme (£94,000)
Carry Forward- Housing Stock Surveys	100,000	The first phase has been commissioned (£75,000) but further work will be required in 2013/14.
Reduction in Rental Income	58,640	Adjustment for lower housing stock
Total Changes	391,660	Total value of all the changes listed above
Post December Budget	(878,110)	

4.5.3 There are increased apprenticeship costs of £9,560 and £64,660 in 2012/13 and 2013/14 respectively. Stevenage Borough Council recognises the potential benefits of an on-going apprenticeship programme and is keen to widen the programme as a way of:

- developing the skills of local people
- bringing young people into the workforce
- involving the local community in the delivery of local services
- growing the workforce of the future

4.5.4 As a result of all the changes the 2013/14 HRA balances as at 31 March 2014 are projected to be £7,470,342, as summarised in Table Four.

Table Four 2013/14 HRA Balances

2013/14 HRA Balances	2013/14 £
<u>HRA Balances:</u>	
Balance Brought Forward	(6,592,232)
Final Budget	(878,110)
Balance Carried Forward	(7,470,342)
<u>Minimum Balances:</u>	
Risk Assessment of Balances	(3,286,944)
Balances held for repayment of Debt	(3,169,000)
Total HRA balances required	(6,455,944)
Additional Balances Held	(1,014,398)

4.5.5 The 2013/14 projected HRA balances of £7,470,342 are higher than the risk assessment of balances for 2013/14 (£3,286,944), (see Appendix B) and additional balances required for debt repayment (£3,169,000).

However, there are significant risks to the HRA which are not fully known at the current time including:

1. Additional RTB sales which reduce the rental income in the HRA, up to the 17 December there has been 31 sales in 2012/13, if this trend continues this is much higher than the anticipated 10-12 sales in the Business Plan.
2. Impact of the universal credit on rent arrears and collection rates from 2013/14 onwards. 54% or £20 Million of the Council's rental income is benefit related.
3. Impact of other welfare reform legislation and changes to Council Tax Support could impact on tenants' ability to pay their rent.

4.6 Consultation

4.6.1 Stevenage Borough Council held a 'Housing Customer Conference' in June 2012 at which tenants and leaseholders were able to identify their priorities for service provision. The feedback from this conference was used in identifying the savings and prioritising the growth contained within this report.

4.6.2 Officers will continue to engage with groups of tenants affected by specific changes, for example via coffee mornings and use of the customer focus panel and the feedback from these events will be fed into the final January HRA budget report. All tenants and leaseholders

will be invited to meet with relevant officers and the Housing Portfolio holder to discuss rent setting and service charges.

- 4.6.3 Information about how the community have been and can be involved in the budget setting process will be included in any communications about the proposals.

5. IMPLICATIONS

5.1 Financial Implications

- 5.1.1 The report deals with Council policy and finances and as such all implications are contained in the main body of the report.

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 Equality Act 2010 and in particular section 149 which is the Public Sector Equality Duty. The Act replaced three previous equality legislations – the Race Relations Act (section 71), the Sex Discrimination Act (section 76A) and the Disability Discrimination Act (section 49A). The Council has a statutory obligation to comply with the requirements of The Act, demonstrating that as part of the decision-making process, due regard has been given to the needs described in the legislation. These duties are non-delegable and must be considered by Council when setting the budget in February 2013.

- 5.3.2 To inform the decisions about the Budget 2013/14 officers have undertaken Brief Equality Impact Assessments (EqIAs) for service-related budget savings proposals. Where there is a potentially negative impact, officers have identified further action needed to inform a final decision and to mitigate the impact where this is possible. These EqIAs are summarised in Appendix G, along with further information on the above legislation.

5.3.3 An impact assessment for the rent increase has also been produced and is summarised in Appendix H.

BACKGROUND DOCUMENTS

BD1 - 2013/14 Draft Rent Setting Report (December Executive 2012)
<http://www.stevenage.gov.uk/content/committees/55185/55538/55541/68383>

BD2- Housing Revenue Account Budget Proposals 2012/13, 2013/14 (part 2)

BD3 - Housing Revenue Account (HRA) Medium Term Financial Strategy (MTFS) (31 July 2012)
<http://www.stevenage.gov.uk/content/committees/55185/55538/55541/Executive-31July2012-Item7.pdf>

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 - Fees and Charges

Appendix G - Equalities Impact Assessment-savings (REVISED from the Executive version)

Appendix H - Equalities Impact Assessment –rents