

 <b>Executive 13<sup>th</sup> February 2013</b> <b>Council 20<sup>th</sup> February 2013</b>		<b>Agenda Item No.</b> <div style="font-size: 2em; text-align: center;"><b>6</b></div>
<b>Title</b>	Housing Revenue Account Budget 2013/14 and Housing Rents	
<b>For further information about this report please contact</b>	Jameel Malik <a href="mailto:jameel.malik@warwickdc.gov.uk">jameel.malik@warwickdc.gov.uk</a> 01926 456403 Mark Smith <a href="mailto:mark.smith@warwickdc.gov.uk">mark.smith@warwickdc.gov.uk</a> 01926 456803	
<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>		
<b>Background Papers</b>	Report to Executive 12 <sup>th</sup> December, 2012: Housing Revenue Account base budgets latest 2012/13 and original 2013/14	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan? (If yes include reference number)</b>	Yes, Ref 425
<b>Equality &amp; Sustainability Impact Assessment Undertaken</b>	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	1-Feb-2013	Bill Hunt
Head of Service	n/a	Finance Report
CMT	29-Jan-2013	
Section 151 Officer	1-Feb-2013	Mike Snow
Monitoring Officer		
Finance	n/a	Finance Report
Portfolio Holder(s)	1-Feb-2013	Councillor Vincett
Consultation Undertaken		
None		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

## **1. SUMMARY**

- 1.1 This report presents to Members the latest Housing Revenue Account (HRA) budgets in respect of 2012/13 and 2013/14.
- 1.2 The information contained within this report supports the recommendations to Council in respect of setting next year's budgets and the proposed increases to council tenant rents, garage rents and supporting people charges for 2013/14.
- 1.3 Compared to the Budgets approved in December 2012, the contribution to the HRA Capital Investment reserve in has increased by £9,000 in 2012/13 but reduced by £82,600 in 2013/14.

## **2. RECOMMENDATIONS (TO COUNCIL)**

- 2.1 To recommend to Council:
  - That housing dwelling rents for 2013/14 be increased by an average of 3.63%.
  - That garage rents for 2013/14 be increased by 5.5%.
  - That 2013/14 Supporting People charges for Housing tenants receiving housing related support be increased by 1%.
  - That the latest 2012/13 and 2013/14 Housing Revenue Account (HRA) budgets, as set out in Appendix 3, be agreed.
  - That the HRA Business Plan is updated to reflect the proposed 2013/14 Estimates and Rent increase, with details reported back to the Executive.

## **3. REASONS FOR THE RECOMMENDATIONS**

- 3.1 The Council is required to set a budget for the Housing Revenue Account (HRA) each year, requiring agreement on the level of rents and other charges that are levied. The Executive is therefore required to make recommendations to Council that take into account the base budgets for the HRA and current Government guidance on rent restructuring.

### **3.2 Housing Rents**

- 3.2.1 Until March 2012 the HRA was subject to Negative Housing Subsidy ('National Rent Pooling'). Every year there was a determination to assess the amount the Council could afford to pay to Central Government assuming that Rent Restructuring had been followed; this grew to over £8m, more than one third of the amount tenants paid in rent. If the Council had not increased rents in line with Rent Restructuring, the Negative Subsidy would still have been payable; which would have diminished HRA reserves, with negative consequences for the future HRA Business Plan.
- 3.2.2 In advance of 'Self Financing' being introduced on 1<sup>st</sup> April 2012, the Council had to pay £136.2m to Central Government to 'buy out' of the Housing Subsidy system. This 'buy out' payment was calculated by Central Government as the amount of debt the Council can afford to take on assuming the national rent

restructuring formula will be used to set rents for at least 30 years, and the debt repaid over that period.

- 3.2.3 The Council opted to structure debt so as to repay between 40 and 50 years in the future; spreading the repayment of debt over a longer period frees up resources in the earlier years of the Business Plan to enable the Council to provide new homes. However this also gives the Council freedom to agree other strategic priorities, including improving existing homes, improving services to tenants, and minimising rent increases to help tenants during difficult economic conditions.
- 3.2.4 As part of agreeing the HRA Business Plan, the Rent Policy included was for the Council to follow Central Government Policy on Rent Convergence. This would have meant an increase of 5.24% for 2013/14. This was set out within the 'Housing Revenue Account base budgets latest 2012/13 and original 2013/14' report approved by Executive in December 2012.
- 3.2.5 Rather than applying the standard national formula, this report recommends increasing rent by an average of 3.63%; this reduces the increase in average weekly rent from £4.31 to £2.98, 31% lower.
- 3.2.6 Whilst the Housing Business Plan allows greater freedoms and flexibilities its overarching policy drivers are:
- To accelerate and maximise the number of new affordable homes; and
  - To ensure existing tenants can benefit from a good quality service and one where rents are set at acceptable/affordable levels taking account of the prevailing economic conditions.
- 3.2.7 The recommended 3.63% rent increase is the lowest prudent level to maintain the agreed development programme and remain affordable within the latest Housing Business Plan without compromising service quality.
- 3.2.8 The approach proposed reduces the rent increase tenants face, whilst still ensuring that housing rents continue to move towards the formula rents recommended by Central Government.
- 3.2.9 This proposed rent increase reduces 2013/14 rental income by £370,000 compared to the budgets approved in December 2012.
- 3.2.10 If it were decided to return to rent restructuring from 2014/15, taking account of annual limits on rent increases within the formula, the estimated cost to the 50-year Housing Business Plan is projected to be £5.5m after 50 years.
- 3.2.11 It will be possible to implement larger increases in future years to move more quickly towards what future rents would have been under the current Business Plan. This would reduce the cost to the Housing Business Plan.
- 3.2.12 The recommendations for rent increases will be reviewed each year to ensure they remain affordable for both tenants and the Housing Business Plan.
- 3.2.13 The latest projection for the Housing Business Plan is a £16.6m favourable variance after 50 years. This saving is largely due to taking out the Self

Financing debt at better than expected interest rates. Therefore this change in Rents Policy is affordable within the approved Business Plan.

### **3.3 Garage Rents**

- 3.3.1 Garage rent increases are not governed by the guidance for rent restructuring, therefore any increase can be considered. The Housing Business Plan base assumption is that Garage Rents will increase in line with inflation, however there has been no consistent policy followed in recent years.
- 3.3.2 The garage rents currently charged remain below the average charged by councils in Warwickshire. There are waiting lists for some garage sites, whilst many garage sites with lower demand are being considered for future redevelopment.
- 3.3.3 With regard to these factors an increase of 5.5% has been recommended as the most appropriate increase, moving garage rents towards the average charged throughout the county without an excessive increase.
- 3.3.4 This increases income for 2013/14 by £25,000 above the 2012/13 budget; £13,000 more than if rents were only increased by inflation (2.6%).
- 3.3.5 For tenants, most garage rents will increase by 29p per week, from £5.20 to £5.49. Non-tenants also pay VAT on the charge, so it is an increase of 35p per week, from £6.24 to £6.59.

### **3.4 Supporting People charges**

- 3.4.1 Supporting People charges were introduced in April 2003 for older or vulnerable tenants living in properties that receive housing related support in addition to normal tenancy management arrangements. Whilst normal tenancy management is financed from the rents that all tenants pay, the introduction of the Government's Supporting People initiative meant that the costs of the additional housing support provided to particular groups of tenants was to be separately funded, to eliminate "rent pooling".
- 3.4.2 Warwickshire County Council is the Supporting People Administrative Authority for this area, and negotiates contracts for the provision of appropriate support throughout the county. If a tenant is in receipt of Housing Benefit or is eligible under the 'Fairer Access to Care' criteria then they receive this support at no cost to them. Most tenants are entitled to receive this support without charge; therefore the majority of income comes from the Supporting People Grant paid from Warwickshire County Council to fund those tenants, and is therefore unaffected by the level of charges to tenants.
- 3.4.3 Supporting People (SP) charges are not subject to rent restructuring. In previous years charges have been set with reference to the weekly amount of SP grant Warwickshire County Council have agreed to pay for each tenant eligible for access to this support without charge. However this grant will now be paid as a fixed block amount rather than specific payments for each eligible tenant.
- 3.4.4 There has been no increase in SP charges since April 2010, when a 1% increase was agreed. To continue to freeze charges will mean more of the cost of the

service will have to be funded from 'rent pooling', that is from the rents paid by all tenants, irrespective of whether they receive the benefit of this service.

- 3.4.5 Those requiring housing related support services are elderly or vulnerable. Any tenant who is not eligible for free support is also not in receipt of housing benefit, so will also have to pay the increase in housing rent from their own income.
- 3.4.6 Therefore an increase of 1% is proposed; this makes a contribution towards inflationary costs in the services received, without the increase being unaffordable.
- 3.4.7 Compared to 2012/13 charges, this increases budgeted income by £1,150; if charges were increase by inflation (2.6%) it would increase by an additional £1,850; £3,000 in total.
- 3.4.8 The current and proposed charges for each category of support are:

Supporting People Charges:	Weekly Charge 2012/13	Proposed Weekly Charge 2013/14
Very Sheltered Housing properties	£ 28.26	£ 28.54
Sheltered Housing properties	£ 11.17	£ 11.28
Older Person Designated Dwellings	£ 6.34	£ 6.40

### 3.5 **Housing Revenue Account budgets**

- 3.5.1 The Council is required to set a budget for the HRA each year, requiring agreement on the level of rents and other charges that are levied. The Executive is therefore required to make recommendations to Council that take into account the base budgets for the HRA and current Government guidance on rent restructuring.
- 3.5.2 The Latest Budgets presented in Appendix 3 are based on the Budgets approved in December 2012 updated for any changes since that report and the recommendations in this report.
- 3.5.3 Other than the items covered above, the most significant change is a revision of the repairs and maintenance programme in line with the latest assessment of requirements. Overall the cost remains similar to the previous budgets reported in December 2012, but there are changes to various programmes of work. Overall, in 2012/13 there is a net increase in revenue repairs and maintenance of £445,900 largely offset by a net decrease of £435,300 in capital works in the Housing Investment Programme; a £10,600 increase in costs overall. For 2013/14 there is a net increase in revenue repairs and maintenance of £420,200 more than offset by a net decrease of £527,400 in capital repairs; a £107,200 decrease in costs overall.
- 3.5.4 It should be noted that the retendering of many repairs and maintenance contracts is not yet complete; it is expected that the overall programme will remain in line with the recommended budgets; any variations will be reported when this exercise has been completed.

- 3.5.5 Budgets have been updated for the redevelopment of an existing housing scheme, following the December 2012 report on development options. Note the majority of this is capital works, and so funded from the HRA Capital Investment Reserve and contributions, rather than directly from the HRA. The Housing Investment Programme is presented as part of the separate February 2013 report 'Budget 2013/14 and Council Tax – Revenue and Capital'; a summary is included within Appendix 3.
- 3.5.6 The recommendations will enable the proposed latest Housing Investment Programme (HIP) to be carried out and contribute available resources to the HRA Capital Investment reserve for future development whilst maintaining a minimum working balance on the HRA of at least £1.25m in line with Council policy.

## **4. POLICY FRAMEWORK**

### **4.1 Policy Framework**

The Housing Revenue Account budget is a financial expression of the Council's housing policies, having regard to the available resources and rent setting consequences. This report is in accordance with the Council's Financial Strategy.

### **4.2 Rents Policy**

- 4.2.1 Setting rents for existing homes that are below the national rent restructuring formula is a change from the Rents Policy the Council has followed for the past 10 years, and which was set out in the Housing Business Plan 2012 to 2062.
- 4.2.2 The 'Self Financing' system that commenced April 2012 gives the Council the financial freedom to revise this policy to ensure rent increases remain affordable for tenants.

### **4.3 Fit For the Future**

A key element of Fit for the Future is ensuring that the Council achieves the required savings to enable it to set a balanced budget whilst maintaining service provision. The Housing Revenue Account is subject to the same regime to ensure efficiency within the service. £30,000 of Fit for the Future savings are included within the recommended 2013/14 budget.

## **5. BUDGETARY FRAMEWORK**

- 5.1 The HRA is a key component of the Council's budget framework and the budgets proposed are in accordance with Fit for the Future and the long term Housing Business Plan.
- 5.2 The recommended budgets maintain a minimum working balance on the HRA of at least £1.25m, in line with Council policy.
- 5.3 The recommendation to increase rents by less than the rent restructuring formula has no effect upon the viability of the Housing Business Plan; there are sufficient resources to meet all projected future expenditure on managing and

maintaining homes, as well as building new homes as agreed in the Housing Business Plan 2012-2062.

- 5.4 The current review of options to improve efficiency of current services and maximise the number of new affordable homes that can be built will further increase the capacity to improve performance and reduce costs.

## 5.5 **Risk Management and Sensitivity Analysis**

- 5.5.1 The risks, and appropriate control mechanisms, for the 2013/14 HRA and the rent increase process are considered to be:

### Self Financing

- The Self Financing payment of £136.2m was calculated by Central Government assuming that Rent Restructuring will be followed, and the debt would be paid off within 30 years.
- This Council has borrowed over a longer term, with loans repayable from 40 to 50 years in the future. This provides more resources in the early years of the Business Plan, which can be used to fund the Council's housing priorities; such as building new homes, improving existing homes, improving services, and minimising rent increases.
- Long term expenditure and income projections are analysed in a 50 year Housing Business Plan to ensure the Housing service remains viable. Prudent assumptions have been made regarding management and maintenance costs. Performance against these projections is assessed every quarter in the Business Plan Financial Framework.
- The debt required to 'buy' out of the Housing Subsidy System was taken at fixed interest rates, at historically low rates. Therefore this provides certainty of the cost of future interest payments, minimising interest rate risk.

### Revenue

- The County Council continues to review Supporting People contracts, it is likely that current contracts will be extended to March 2014, but the longer term position is uncertain.
- Changes to void levels or lengthening re-let times, for either dwellings or garages, would affect income received. Effective management of void rent loss is critical to efficient service delivery, and is scrutinised regularly by the service area's management team.
- A significant increase to the Bad Debt Provision is already included in the budgets to reflect the likely impact of Welfare changes. Close monitoring of the rent arrears situation is being undertaken with every effort being made to contain any increase in current arrears.

### Capital

- The maximum discounts available for 'Right to Buy' (RTB) sales of Council homes increased on 1<sup>st</sup> April 2012. This has increased the number of sales, but reduced the amount received per sale. There have been 13 sales to date in 2012/13. Receipts from these sales have been included in the HIP budgets. It has been estimated that there will be 7 sales per year in future.

- Previously Central Government kept 75% of each capital receipt, but there is now a 'tiered' approach based on various thresholds which means the proportion paid to Government will vary and certain portions of the retained receipts may be reserved for specific purposes if sales pass certain thresholds; providing for HRA debt, and providing new affordable housing.
- At WDC the capital receipts from RTB sales have traditionally been used to support General Fund housing initiatives, particularly grant provision for private sector housing. There remains an element of retained receipts that can still be used for these purposes.
- Members may wish to consider these changes when considering the policy concerning funding of private sector housing in the future.

5.5.2 These key risks have been considered when setting the HRA budget for 2013/14. A sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows:-

- 20% reduction in Supporting People Grant income = £92,700
- 0.5% change in void rent loss = £123,600 increase or decrease to rental income.
- Currently no anticipated capital receipts from RTB sales have been included for HRA usage in future years, instead it is assumed that receipts will continue to be used to fund General Fund housing. Each sale currently generates an average 'usable capital receipt' for the Council of around £28,000, the remainder being paid to the Treasury under capital receipt 'pooling' regulations.
- Loss of rental income due to Right to Buy (RTB) sales = £4,440 per property for a full year; so on average half of this, £2,220, for each home sold if RTB sales are spread fairly evenly throughout the year.

5.5.3 Were any, or all, of these possibilities to arise the impact could be accommodated within the proposed HRA budget for 2013/14 and overall Housing Business Plan.

## **6. ALTERNATIVE OPTION(S) CONSIDERED**

### **6.1 Housing Rents**

6.1.1 If the national rent restructuring formula were applied in 2013/14, in line with previous Rents Policy, it would increase average rents by 5.24% (£4.31 per week) from the rents charged in 2012/13; this is an additional 1.61% (£1.33 per week) increase compared to the rents recommended in this report.

6.1.2 This would increase HRA income by £370,000 in 2013/14. The effect over the longer term depends upon how gradually the lower rents recommended in this report will re-converge with rent restructuring, which is a question for future years Rents setting; assuming a return to rent restructuring from 2014/15, the estimated increase in Housing Business Plan resources over 50 years is £5.5m.

6.1.3 Any level of average rent can be considered; as long as rents remain below the Rent Rebate Subsidy Limit Rent each 1% increase or decrease in rent would



change 2013/14 rental income by £229,000. Again, the longer term effect upon the Business Plan would depend upon future years Rents setting.

- 6.1.4 It would be possible to set rents higher than the rent restructuring formula; however Central Government discourages this through Rent Rebate Subsidy Limitation. Each year Central Government specify a 'Limit Rent' for each Council; this is equivalent to the average rent expected from rent restructuring. If average rents are set above the limit rents then Central Government reduce their funding for Council tenant Housing Benefits proportionally, so the Council has to fund the additional cost of Housing Benefits from the HRA. Therefore if rents were set above the rent restructuring rent, each 1% increase in rents would only increase income by approximately £100,000.
- 6.1.5 It would be possible entirely ignore national rent restructuring and set rents on any other basis the Council believed more appropriate, as long as rents were set consistently and fairly; however this would be a significant divergence from Central Government policy and is therefore strongly discouraged.
- 6.1.6 The limits on annual rent increases built into rent restructuring are designed to ensure existing tenants rent increases reach formula rent in a number of manageable steps; these limits do not apply when a property becomes void, and the Council has the opportunity to increase rent straight to formula rent, or unconstrained rent, or any intermediate level of rent if preferred. The Council has never chosen to exercise this option; partly due to the administrative time, but largely because it would mean that identical neighbouring properties may have different rents depending on when the tenant moved in, which was felt to be unfair.

## 6.2 **Garage Rents**

- 6.2.1 The Council has total discretion over the setting of garage rents.
- 6.2.2 Each 1% change in garage rents results in an increase or decrease of potential income of around £4,550 per year.
- 6.2.3 Garage rents are already amongst the lowest in the county. Keeping garage rents artificially low would mean they are effectively subsidised from tenants' rents. Since most tenants do not also rent a garage, and most garages are rented to people who are not Council tenants, this is hard to justify.
- 6.2.4 It would be possible to set Garage rents higher than those proposed to maximise income; however significantly higher rents may make Garages harder to let and so reduce income.

## 6.3 **Supporting People Charges**

- 6.3.1 Supporting People (SP) charges could be set at any level. Significant increases may mean the service becomes unaffordable for vulnerable tenants not eligible for free support. Reductions or long term freezes in charges would mean that the costs of providing the service are not fully recovered, and so additional costs must be met from the rents of all tenants.
- 6.3.2 Increasing or decreasing Supporting People charges by 1% will change the projected income in 2013/14 by £1,150.

## **7. BACKGROUND**

- 7.1 The Executive received a report on the background to setting the HRA budget and housing rents and charges for 2013/14 at its meeting on 12<sup>th</sup> December 2012.
- 7.2 However, dwelling rents, garage rents, and supporting people charges for 2013/14 need to be considered and agreed before the final budgets can be set. The background to each of these items is summarised below.
- 7.3 These rents and charges, along with any other changes that have arisen since the previous report, impact on the setting of the final HRA budget.
- 7.4 **Housing Rents and Rent Restructuring**
  - 7.4.1 Rent Restructuring was introduced by the Government in 2002, with the intention of bringing all social housing rents into line with each other by application of a national rent formula, so that a similar sized socially rented property within a particular area will cost the same regardless of who is the landlord. Rent restructuring was initially intended to achieve convergence by 2012/13. The current national target is 2015/16, in 3 years time; though due to caps and limits not all rents will reach formula rent by this target.
  - 7.4.2 A summary of the key outputs from rent restructuring and a comparison to the 2013/14 rents recommended in this report are included in Appendix 1.
  - 7.4.3 A comparison with market rents currently charged for properties with 1 to 4 bedrooms in the WDC area has been included at Appendix 2. For example, the average market rent for a 3 bed house within the area is £201.92 compared to the proposed 2013/14 rent for WDC tenants of £94.16. Therefore the proposed rent remains less than half of the market rent.
- 7.5 **Supporting People Charges for Housing Related Support**
  - 7.5.1 Warwick District Council has four Supporting People contracts covering the support services offered to council tenants living in sheltered housing, designated older persons dwellings or any other property with a community (Lifeline) alarm. The support is delivered by Housing and Property Services' Supporting People Services, which includes the 24 hour Warwick Response team.
  - 7.5.2 Currently the County Council pay an agreed amount of 'Supporting People Grant' to this Council on behalf of each eligible tenant for every week they receive the service. Other tenants who receive the service but are not eligible for this grant pay a weekly charge themselves. In previous years the Council has chosen to set these weekly charges at the same rate as the Grant paid by the County Council; this provided consistency in the funding received for each tenant; however it meant charges were set with no regard to any real increases in the costs of providing the service.
  - 7.5.3 Supporting People Grant will now be paid a block grant, at a fixed value agreed in advance. The County Council has set the initial value of this block grant with regard to the average amount payable in the current system, reduced by a percentage to meet their savings targets.

7.5.4 Moving to a block grant will have absolutely no effect on current or future tenants; anyone eligible under the current system will continue to receive this housing related support at no cost to them, whilst those who have to pay their own charges will continue to do so.

## **7.6 Housing Revenue Account**

7.6.1 Councils with housing stock are required to maintain a separate 'ring-fenced' Housing Revenue Account (HRA) for all expenditure and income related to council housing. By law councils cannot approve a budget that would lead to a deficit HRA balance.

7.6.2 2012/13 and 2013/14 budgets were last considered in the December 2012 report 'Housing Revenue Account base budgets latest 2012/13 and original 2013/14', which detailed the latest 2012/13 budget and initial 2013/14 budget and identified the changes from the initial 2012/13 budget.

7.6.3 Appendix 3 shows the recommended Housing Revenue Account for 2012/13 and 2013/14, updated to show the latest position including the effect of the recommendations in this report.

7.6.4 The Capital works in the Housing Investment Programme are presented as part of the separate February 2013 report 'Budget 2013/14 and Council Tax – Revenue and Capital'. A summary is included within Appendix 3 for reference.