WARWICK DISTRICT COUNCIL	**Executive 12th February 2014** **Council 26th February 2014**	**Agenda Item No.** **6**

Title	Housing Revenue Account Budget 2014/15 and Housing Rents
For further information about this report please contact	Mark Smith mark.smith@warwickdc.gov.uk 01926 456803
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	
Background Papers	Report to Executive 12th December, 2013: Housing Revenue Account base budgets latest 2013/14 and original 2014/15

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes, Ref 537
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	27-Jan-2014	Bill Hunt
Head of Service	n/a	Finance/Housing & Property Report
CMT	21-Jan-2014	
Section 151 Officer	21-Jan-2014	Mike Snow
Monitoring Officer	22-Jan-2014	Andrew Jones
Finance	21-Jan-2014	Mike Snow
Portfolio Holder(s)	21-Jan-2014	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 2013/14 and 2014/15.

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 housing rents, garage rents and other charges for 2014/15.

1.3 Appendix 1 compares current rents, proposed rents, and rent restructuring rents.

1.4 Appendix 2 compares current rents, proposed rents to market rents and affordable rents.

1.5 Appendix 3 shows the latest 2013/14 and 2014/15 budgets, including forecast reserves.

2. RECOMMENDATIONS (TO COUNCIL)

To recommend to Council:

2.1 That housing dwelling rents for 2014/15 be increased by an average of 3.7%.

2.2 That void homes are moved to capped formula ('target') social rent when re-let.

2.3 That garage rents for 2014/15 be increased by 3.7%.

2.4 That 2014/15 Supporting People charges for Housing tenants receiving housing related support be increased by 1%.

2.5 That 2014/15 weekly Lifeline charges for clients be increased by 25p.

2.6 That the latest 2013/14 and 2014/15 Housing Revenue Account (HRA) budgets, as set out in Appendix 3, be agreed.

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, strategic aspirations for the Housing Service and current Government guidance on rent restructuring.

3.2 **Housing Rents – 2014/15 Annual Increase**

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, leaving little contingency for unexpected costs.

3.2.2 In advance of 'Self Financing' being introduced on 1st April 2012, the Council had to pay £136.2m to Central Government to 'buy out' of the Housing Subsidy system.

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 long 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 in 2012, the Rent Policy was for the Council to continue to follow Central Government Policy on Rent Convergence. However when setting 2013/14 rents in February 2013 it was agreed to reduce the rent increase from the 5.24% expected from rent restructuring to 3.63%.

3.2.5 Returning to the standard formula would mean an increase of 5.99% on average for 2014/15; partly to 'catch up' from the lower 2013/14 increase. This was set out within the 'Housing Revenue Account base budgets latest 2013/14 and base 2014/15' report approved by Executive in December 2013.

3.2.6 Rather than applying the standard national formula, this report recommends a rent increase set with regard to the formula, but reduced to an average increase of 3.7% for current tenants; in line with the expected future rent formula of CPI (Consumer Prices Index) + 1%. This reduces the increase in average weekly rent from £5.10 to £3.15.

3.2.7 Whilst the Housing Business Plan allows greater freedoms and flexibilities, its overarching policy drivers are:

- To accelerate and maximise the number of new social/affordable homes; and
- To ensure existing tenants can benefit from a good quality service with rents set at acceptable/affordable levels taking account of the prevailing economic conditions.

3.2.8 The recommended rent increase for current tenants will allow the provision of new homes and remain affordable within the Housing Business Plan without compromising service quality. It should be noted that it will reduce the number of new homes that can be built in future by approximately 100 over 50 years (25 over 10 years), compared to following the national rent formula.

3.2.9 This proposed rent increase reduces 2014/15 rental income by £555,500 compared to the 5.99% increase assumed in the base budget report in December 2013.

3.2.10 The recommendations for rent increases will be reviewed each year to ensure they remain affordable for both tenants and the Housing Business Plan.

3.3 **Housing Rents – Increase when Void**

3.3.1 The Housing Business Plan is based on the assumption that housing rents gradually move to social rents set by the national formula; these are the standard rents that any social landlord is expected to charge, and the rents Central Government assumed when determining the amount the Council should pay when Self Financing commenced.

3.3.2 Central Government is currently consulting on a new national social rent policy, which would apply from 2015/16. This has no direct impact upon setting 2014/15 rents; however the proposed limit on rent increases effectively abolishes 'Rent Restructuring' from 2015/16, meaning it will be impossible to reach formula (target) social rents through normal annual increases to tenant rents.

3.3.3 The limit on annual rent increases does not apply when a property becomes void, so the Council has the opportunity to increase rent straight to capped formula rent, or any intermediate level of rent preferred.

3.3.4 Central Government states in the consultation 'we expect authorities to adhere to the limit on rent changes, but to move the rent up to formula rent where the property is re-let following vacancy.' Therefore the recommendation is in line with Central Government policy and expectations.

3.3.5 Not moving vacant homes to social formula rent would significantly reduce Business Plan resources, by approximately £160m over 50 years. For illustration, this would decrease the projected number of new homes that could be built by 620.

3.3.6 Capped Formula rent is on average 7.3% (£6.43) higher than the proposed 2014/15 rents; Appendix 1 shows more detail.

3.4 **Garage Rents**

3.4.1 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.

3.4.2 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; approximately 90 garages are expected to be demolished in 2014/15.

3.4.3 With regard to these factors an increase of 3.7% has been recommended as the most appropriate increase, the same as that proposed for housing rents. This moves garage rents towards the average charged throughout the county without an excessive increase.

3.4.4 This increases income for 2014/15 by £17,000.

3.4.5 For tenants, most garage rents will increase by 20p per week, from £5.49 to £5.69. Non-tenants also pay VAT on the charge, so it is an increase of 24p per week, from £6.59 to £6.83.

3.5 **Supporting People charges**

3.5.1 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 is now paid as a fixed block amount rather than specific payments for each eligible tenant.

3.5.2 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.

3.5.3 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.

3.5.4 Therefore an increase of 1% is proposed; this makes a contribution towards inflationary costs in the services received, without the increase being unaffordable.

3.5.5 Compared to 2013/14 charges, this increases budgeted income by £1,300; if charges were instead increased by RPI (Retail Prices Index) inflation (3.2%) income would increase by £4,200 (an additional £2,900).

3.5.6 The current and proposed charges for each category of support are:

Supporting People Charges:	Weekly Charge 2013/14	Proposed Weekly Charge 2014/15
Very Sheltered Housing properties	£28.54	£28.83
Sheltered Housing properties	£11.28	£11.39
Older Person Designated Dwellings	£6.40	£6.46

3.6 **Lifeline charges**

3.6.1 Other than the 1% increase last year, there has been no increase in lifeline charges since the 25p per week increase April 2010 (an increase that was delayed until April 2011 for existing customers).

3.6.2 If charges are not increased over time to meet the full cost of providing this service to customers, part of the costs will be borne by council tenants, which is not appropriate.

3.6.3 A 25p a week increase in Lifeline charges for invoices raised from April 2014 is proposed; this will generate an additional £27,000 of income.

3.6.4 The current and proposed charges are:

Lifeline Charges:	Weekly Charge 2013/14	Proposed Weekly Charge 2014/15
Monitoring Service Only	£1.26	£1.51
Monitoring Service and Equipment Rental	£2.78	£3.03

3.7 **Housing Revenue Account budgets**

3.7.1 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.

3.7.2 The Latest Budgets presented in Appendix 3 are based on the Budgets approved in December 2013 updated for any changes since that report and the recommendations in this report.

3.7.3 Following depletion in 2013/14 and previous years, an increased contribution to the HRA Early Retirement Reserve is required in 2013/14 to replenish the reserve to a prudent level (+£72,000).

3.7.4 2014/15 rental income has reduced by £50,900 due to an increase in the number of Right to Buy sales projected.

3.7.5 Other than the items covered above, the most significant changes to budgets are adjustments in the revenue contributions to capital outlay (RCCO), due to changes in the Capital Housing Investment Programme (HIP).

3.7.6 The Housing Investment Programme is presented as part of the separate February 2014 report 'Budget 2014/15 and Council Tax – Revenue and Capital'; a summary is included within Appendix 3.

3.7.7 Budgets have been updated for the redevelopment of Fetherston Court in line with the latest projected timetable of works. Note this is funded from the HRA Capital Investment Reserve and contributions, rather than directly from the HRA.

3.7.8 The recommendations will enable the proposed latest Housing Investment Programme 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 rent policy the Council had followed until 2012/13, but is consistent with the reduced increase in 2013/14 rents. The Housing Business Plan presented to the Executive in December 2013 assumed returning to national rent restructuring for 2014/15 rents.

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.

4.2.3 Re-letting void homes at capped formula (target) rent is a change in the council's current rent policy. This will be the only way the Council can continue the policy of moving towards target social rents if, as expected, the new rent policy proposed by Central Government is implemented.

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.

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 financial viability of the Housing service; there are sufficient resources to meet all projected future expenditure on managing and maintaining homes. However it will reduce future funding for providing new homes by approximately 100 homes over the 50 year Business Plan (25 homes in the first 10 years).

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 2014/15 HRA and the rent increase process are considered to be:

<u>Self Financing</u>

- 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.

Revenue

- The County Council continues to review Supporting People contracts, it is uncertain how long current contracts will continue. Any future changes to Supporting People funding will be the subject of a report.
- 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 contribution 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 significantly on 1st April 2012; This has increased the number of sales, but reduced the amount received per sale. In 2011/12, before these changes, there were only 3 'right to buy' sales. This rose to 17 sales in 2012/13, and there have been 34 in the first 9 months of 2013/14. Receipts from these sales have been included in the HIP budgets. Current budgets are based upon an increased projection of 35 sales next year, then over 20 per year in future.
- Central Government have announced the maximum percentage discount for a house will rise from 60% to 70%, and the maximum discount ('cap') will increase each year in line with CPI inflation.
- 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 = £92,400

- 0.5% change in void rent loss = £129,500 increase or decrease to rental income.

- Currently only the element of anticipated capital receipts from RTB sales specifically reserved for provision of affordable housing has been included for HRA usage in future years. It is assumed that the remainder of 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 £36,000, the remainder being paid to the Treasury under capital receipt 'pooling' regulations.

- On average the loss of rental income due to Right to Buy (RTB) sales = £4,700 per property for a full year; so on average half of this, £2,350, 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 2014/15 and overall Housing Business Plan.

6. ALTERNATIVE OPTION(S) CONSIDERED

6.1 Housing Rents – 2014/15 Annual Increase

6.1.1 If the national rent restructuring formula were applied in 2014/15, in line with previous Rents Policy, it would increase average rents by 5.99% (£5.10 per week) from the rents charged in 2013/14; on average this is an additional £1.95 per week increase compared to the rents recommended in this report.

6.1.2 This would increase HRA income by £555,500 in 2014/15. The effect over the longer term depends upon whether homes are moved to formula rent when voids; if so the estimated increase in Housing Business Plan resources over 50 years is £13.8m, which could fund approximately 100 homes over 50 years (25 in 10 years).

6.1.3 It would also reduce the gap between current tenant rents and the formula rents that would be charged to new tenants.

6.1.4 The council could choose to 'catch-up' for reduced rent increases in prior years by increasing tenant rents further in 2014/15.

6.1.5 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 2014/15 rental income by £242,600. Again, the longer term effect upon the Business Plan would depend upon future years Rents setting.

6.1.6 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 limit rent, each 1% increase in rents would only increase income by approximately £100,000.

6.1.7 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.

6.2 **Housing Rents – Increase when Void**

6.2.1 The Council could choose not to increase the rent when a property became void, and effectively keep rents below formula rent. This would mean rents always remain below the normal level of social rents. This would significantly reduce Business Plan resources, by approximately £160m over 50 years, decreasing the projected number of new homes that could be built by 620.

6.2.2 The council could implement rent increases above CPI + 1% in future years to move all rents towards formula rent. However this is against the proposed national policy, and the Council would have to repay a proportion of rental income under Rent Rebate Subsidy Limitation.

6.3 **Garage Rents**

6.3.1 The Council has total discretion over the setting of garage rents.

6.3.2 Each 1% change in garage rents results in an increase or decrease of potential income of around £4,850 per year.

6.3.3 Garage rents are 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.

6.3.4 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.

6.4 **Supporting People Charges**

6.4.1 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, including those not receiving the service.

6.4.2 Increasing or decreasing Supporting People charges by 1% will change the projected income in 2014/15 by £1,300.

6.5 **Lifeline Charges**

6.5.1 Lifeline charges could be set at any level. Reductions or long term freezes in charges would mean that costs would not be recovered from service users. Therefore costs relating to these customers would be met from the rents of our tenants.

6.5.2 Increasing or decreasing Lifeline charges by 25p a week will change the projected income for 2014/15 by £27,000.

7. BACKGROUND

7.1 The Executive received a report on the background to setting the HRA budget and housing rents and charges for 2014/15 at its meeting on 11th December 2013.

7.2 However, dwelling rents, garage rents, and supporting people charges for 2014/15 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 across all social landlords. Rent restructuring was initially intended to achieve convergence by 2012/13. The current national target is 2015/16, in 2 years time; though due to caps and limits not all rents would reach formula rent by this target date.

7.4.2 Central Government propose to abolish rent restructuring one year early, before 2015/16 rent setting, and introduce a new limit on annual rent increases. Therefore it would no longer be possible for current tenants to reach the national rent formula through annual rent increases. The current 2014/15 rent setting exercise is likely to be the last opportunity to move current tenants closer to formula rents.

7.4.3 It is not compulsory to follow the national rents policy; however Central Government intend to adjust the Rent Rebate Subsidy 'Limit Rent' to the rents we would charge following the policy; so if a rent increase above this level was implemented the council would effectively have to repay the element of income above that level that is funded by Housing Benefits.

7.4.4 A summary of the key outputs from rent restructuring and a comparison to the 2014/15 rents recommended in this report are included in Appendix 1.

7.4.5 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 current average market rent for a 3 bed house in the area is £206, compared to the proposed 2014/15 rent for current WDC tenants of £97.72. On average proposed 2014/15 rents are approximately half of current Market rents.

7.5 Supporting People Charges for Housing Related Support

7.5.1 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".

7.5.2 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.

7.5.3 Warwick District Council currently 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.

7.6 **Lifelines**

7.6.1 The Warwick Response Lifeline service is available to private residential customers, tenants of other social landlords, private tenants, and Council tenants living in general needs properties not subject to Supporting People Charges.

7.6.2 The customer chooses to either make a one-off donation for the equipment and pay weekly for the monitoring service, or pay a higher weekly charge which also covers renting the equipment.

7.7 **Housing Revenue Account**

7.7.1 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.

7.7.2 2013/14 and 2014/15 budgets were last considered in the December 2013 report 'Housing Revenue Account base budgets latest 2013/14 and original 2014/15', which detailed the latest 2013/14 budget and base 2014/15 budget and identified the changes from the initial 2013/14 budget.

7.7.3 Base budgets do not include any estimate of the effect of the forthcoming 'phase 2' of the Housing & Property service redesign.

7.7.4 Appendix 3 shows the recommended Housing Revenue Account budgets for 2013/14 and 2014/15, updated to show the latest position including the effect of the recommendations in this report.

7.7.5 The Capital works in the Housing Investment Programme are presented as part of the separate February 2014 report 'Budget 2014/15 and Council Tax – Revenue and Capital'. A summary is included within Appendix 3 for reference.