

 Executive 09 February 2011		Agenda Item No. 7
Title	Housing Revenue Account Budget 2011/12 and Housing Rents	
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Service Area	Housing and Property Services / Finance	
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	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	Executive, 06/01/11 Minute number 635	
Background Papers	Report to Executive 22nd December, 2010: Approval of Housing Revenue Account Base Estimates Revised 2010/11 and Original 2011/12 2011/12 Final Subsidy Determination	

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 271

Officer/Councillor Approval		
With regard to officer approval all reports <i>must</i> be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	Date	Name
Relevant Director	19 Jan 2011	Bill Hunt
Chief Executive	19 Jan 2011	Chris Elliott
SMT	19 Jan 2011	
Section 151 Officer	19 Jan 2011	Mike Snow
Finance	19 Jan 2011	Mike Snow
Portfolio Holder(s)	19 Jan 2011	CLlr Grainger
Consultation Undertaken		
Final Decision?	Yes	

1. SUMMARY

- 1.1 This report sets out the latest projections for the Housing Revenue Account revenue estimates in respect of 2010/11 and 2011/12.
- 1.2 It also sets out the proposed increases to council tenant rents, garage rents and supporting people charges for 2011/12.

2. RECOMMENDATIONS (TO COUNCIL) -

2.1 To recommend to Council:

- That housing dwelling rents for 2011/12 be increased by an average of 7.49%.
- That garage rents for 2011/12 be increased by 4.6%.
- That Supporting People charges for Housing tenants remain the same as those charged in 2010/11 – no increase.
- That the 2011/12 Housing Revenue Account (HRA) budget, updated with the Final Subsidy Determination information and the proposed additional funds being requested in a separate report to this meeting, as set out at Appendix 3, be agreed. These figures are subject to change, depending on the decisions made regarding the request for additional funds and will be reported to the Council meeting on 23rd February, 2011.
- That changes to the 2010/11 revised estimates considered in January, be agreed.

3. REASONS FOR THE RECOMMENDATIONS

- 3.1 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 budget revenue estimates for the HRA, the 2011/12 subsidy determination and the current Government guidance on rent restructuring.
- 3.2 The proposed dwelling rent increase follows Government guidance which requires councils to increase their rents in accordance with a prescribed formula so as to meet the requirements of rent restructuring and rent convergence. This is described in more detail in section 8 and Appendix 1.
- 3.3 Whilst this means the increase is in accordance with the Council's financial strategy it also means that the level of the recommended rent increase is significantly higher than the Council would wish to make if there was no

requirement to comply with the Government's rent restructuring guidance.

- 3.4 Garage rent increases are not governed by the guidance for rent restructuring. The proposed increase is in line with that being considered for Dwelling Rents, using the same rate of inflation as the Government, Retail Price Index, (RPI), as at September 2010.
- 3.5 The Supporting People charge increase applied equates to the inflationary increase awarded by Warwickshire County Council for all Supporting People contracts, effective from April in the previous year. Normally the County Council's decision on this increase is received too late for it to be reflected in the current years charge levied to tenants, so this tends to be a retrospective inflationary charge applied one year in arrears. The Commissioning Body at the County Council decided not to apply an inflationary increase to Supporting People contracts for 2010/11. To reflect this decision, no increase has been applied to these charges for 2011/12.
- 3.6 The recommendations will enable the proposed revised Housing Investment Programme for 2010/11 and initial 2011/12 to be carried out, partially funded by a revenue contribution to capital outlay (RCCO) payment from the HRA, whilst maintaining a minimum working balance on the HRA of at least £750,000, in line with Council policy.

4. ALTERNATIVE OPTION(S) CONSIDERED

- 4.1 There is no viable alternative option for the setting of housing dwelling rents other than to comply with the Government's rent restructuring criteria, especially with the proposed introduction of Self Financing of the HRA from 1 April, 2012. To apply a rent increase less than that indicated within the Housing Subsidy Determination for 2011/12, would result in adverse consequences for the 30 year Business Plan on which Self Financing predictions are being based.
- 4.2 There are alternative options in relation to garage rents as these are not subject to the Government's rent restructuring guidelines. Any percentage change could be applied, with each option realising a different amount of income to the HRA. Each 1% change in garage rents results in an increase or decrease of potential income of around £4,480, per annum.
- 4.3 The Supporting People charge is not subject to the rent restructuring criteria. However, it is subject to changes implemented by Warwickshire County Council, on recommendation of its Commissioning Body. The proposed increase reflects the level of inflationary increase set by Warwickshire County Council for the financial year 2010/11. Currently, there is no indication that the Commissioning Body is making a recommendation to the County Council to increase the Supporting People charges in 2011/12.

5. BUDGETARY FRAMEWORK

- 5.1 The HRA is a key component of the Council's budget framework.

6. POLICY FRAMEWORK

- 6.1 The rent and budget setting process is designed to comply with the requirements of the Council's Financial Strategy.

7. BACKGROUND

- 7.1 The Executive received a report on the background to setting the HRA budget and housing rents and charges for 2011/12 at its meeting on 6 January, 2011.
- 7.2 However, there are three elements that require consideration before the final 2011/12 rent increase can be agreed, which are set out in Sections 8 to 10 below. The rent increase, in turn, impacts on the setting of the final HRA budget which is considered in Sections 11 and 12.

8. RENT RESTRUCTURING OF DWELLING RENTS

- 8.1 Rent Restructuring was introduced by the Government in 2002/03, with the intention of bringing all social housing rents into line with each other, so that a similar sized property within a particular area will cost the same regardless of who is the landlord. The aim of rent restructuring was, initially, to achieve this convergence by 2012. The latest determination assumes convergence in 5 years time, that is, by 2016. Since its introduction, rent setting for all social housing has been governed by the application of a prescribed national formula, designed to bring about this convergence. The application of the formula is described in detail in Appendix 1.
- 8.2 Appendix 2 sets out the application of the formula to existing rents. To achieve the required rent convergence the formula prescribes a method of increasing current rents and then applying a second uplift to narrow the gap between the newly increased rent and the Formula Rent as shown in the appendix. The effect of these two uplifts is to raise the average rent for 2011/12 by £5.28 to £75.79 per week, an increase of 7.49% on the previous year's average rent.
- 8.3 Applying all of the relevant 'caps and limits' to the calculations, which impose an increase on current rents of inflation, at 4.6%, plus 0.5% 'real', giving 5.1%, plus £2, the proposed increase of 7.49% is produced. Without these 'caps and limits', the average rent for 2011/12 would have been £78.20, an increase of £7.69 per week or 10.90%.
- 8.4 The only way the shortfall between the actual rents being charged and the levels required to achieve convergence by 2016 could be rectified in a

single year would be by setting a rent increase that would be even more unaffordable for most tenants.

9. GARAGE RENTS

- 9.1 The Council has total discretion over the setting of garage rents as these are unaffected by the rent restructuring guidelines described in Section 8. Therefore, any percentage increase could be considered. Whilst a substantial rent increase would maximise the potential to realise additional income, this could be offset if the new rent was higher than the local market was able to sustain and might result in higher void levels and consequent void rent loss.
- 9.2 The proposed increase of 4.6% for 2011/12 reflects the September RPI figures used in the Governments calculations for dwelling rent increases, contained in the Final Housing Subsidy Determination for 2011/12.
- 9.3 Garage rents will increase by an average 22p per week, from £4.70 to £4.92.

10. SUPPORTING PEOPLE CHARGES

- 10.1 Supporting People charges were introduced in April 2003 for tenants living in properties that receive a housing support service in addition to the normal tenancy management arrangements. Whilst the latter are 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, available only to particular groups of tenants, has to be separately funded to eliminate "rent pooling".
- 10.2 The Supporting People charge that is levied for this additional support is payable by the tenant unless they qualify for Supporting People Grant. Anyone eligible for Housing Benefit will automatically qualify for the Grant, which is administered by the County Council. However, any tenant who was resident at 1 April, 2003, when the scheme was introduced, and not in receipt of Housing Benefit, is classed as a "protected" tenant who does not have to pay the additional charge. When their tenancy ends the charge is registered against the property and the incoming tenant becomes liable to pay it in addition to the rent charged on the property.
- 10.3 The Council has four Supporting People contracts covering the support services offered to 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', 24 hour, Warwick Response team.
- 10.4 Decisions on the level of grant payable are made by the Supporting People Administrative Authority, in our case Warwickshire County Council. When the Commissioning Body decides to make an inflationary increase to the level of grant payable, it is necessary for the Council to increase its

Supporting People charges by a corresponding amount. This is to ensure that the integrity of the Supporting People scheme is preserved and to prevent the potential for rent pooling to creep back into the HRA.

- 10.5 As in previous years, the notification of the award for 2010/11 was received after the charges had been set and it would not have been cost effective to attempt to make any alteration at that time. However, the decision of the Commissioning Body was not to increase the Supporting People Grant contribution for 2010/11. As a result, no retrospective increase has been applied to charges for 2011/12. Any further awards of this nature will continue to be introduced one year in arrears for future financial years.
- 10.6 The proposed charges for 2011/12 will be the same as those charged in 2010/11 and are as follows:

Supporting People Charges:	Proposed Weekly Charge 2011/12
Very Sheltered Housing properties	£ 28.26
Sheltered Housing properties	£ 11.17
Older Person Designated Dwellings	£ 6.34
Other properties with a Community Alarm	£ 2.80

11. HOUSING REVENUE ACCOUNT

- 11.1 Appendix 3 shows the proposed Housing Revenue Account for 2011/12.
- 11.2 The key assumptions contained within the Final Subsidy Determination for the Warwick District are:

	2010/11	2011/12	% change
No. of dwellings	5,623	5,621	-2
Management allowance per dwelling	£517.88	£523.95	6.07
Maintenance allowance per dwelling	£1,051.68	£1,054.27	2.59
Major Repairs Allowance per dwelling	£657.93	£670.86	12.93

- 11.3 The rent pool has operated since 2004/05, when Housing Benefit rebates and their associated subsidy were removed from the HRA and placed in the General Fund. The rent pool is a redistributive system with authorities either paying into, or receiving additional subsidy payments from the pool. The Government uses a 'notional HRA' budget calculation for each local authority with a housing stock, to determine whether their assumed rental income will be above or below the assumed management and

maintenance costs for their stock. This notional HRA determines whether or not Authorities will be net contributors to, or net beneficiaries from the national rent pool.

- 11.4 In our case, the Government's subsidy assessment is that our rental income will exceed our housing costs. This gives us a 'negative subsidy requirement', meaning we will remain a contributor to the national rent pool. The payments we are required to make to the national rent pool represent a considerable loss of resources to the "real" HRA as they entail resources being directed elsewhere in the country, rather than being made available locally to fund stock or service improvements for WDC tenants.
- 11.5 As the following table shows, our income will exceed our expenditure by £8.6M, in the notional HRA calculation:

	2010/11 (£M)	2011/12 (£M)
Management & Maintenance Allowances	8.8	8.9
Major Repairs Allowance	3.7	3.8
Charges for Capital	0.8	0.4
Total Assumed Housing Costs	13.3	13.1
Rental Income	(20.6)	(21.7)
Difference (Payment to Rent Pool)	(7.3)	(8.6)

NB Figures rounded up or down

- 11.6 The (£8.6M) payment to the national rent pool is shown as the Transfer Payments total within the HRA budget as set out at Appendix 3. This increased payment of (£1.3M), compared to the 2010/11 original estimate, is mainly due to the increase in the assumed rental income, (£1.1M), and an overall reduction in assumed housing costs of (£0.2M). Management and maintenance and the major repairs allowances actually increased by £0.2M but this was 'offset' by an assumed decrease in the charges for capital cost (£0.4M), due to a low interest rate of just 0.67% being applied. This, together with other changes, particularly the increased contributions towards capital works, as discussed within the separate report to this meeting, will decrease the anticipated balance on the HRA from £8.87M, shown in the Estimates Report considered by Executive in January 2011, to £6.51M for 2011/12.
- 11.7 In addition to the impact of the subsidy determination, there are some significant changes between the proposed 2011/12 budget and the base figures presented in January 2011, many of these relating to the proposals contained within the separate report. These are:

- A £241,200 increase in rental income for dwellings. This is due to the full 7.49% rent restructuring increase being applied to current rents rather than the estimated 6.52% increase reported in the January estimates.
- A £256,100 increase in National Housing Rent Pool Payments. This is mainly a result of a reduction in the estimated interest rate used to calculate capital charges. A reduction of 2.2%, down from 2.87% to just 0.67%, has resulted in a loss of subsidy of £304,500. Other changes between the Draft subsidy determination issued by Government in December and the Final, received in January were due to small increases in allowances, totalling (-£48,400). These reduce the amount of negative subsidy payable, to give a net change of £256,100.
- A £33,500 reduction in income from Interest on Balances, due mainly to the anticipated reduction in balances if the proposed additional expenditure on the Housing Investment Programme, (HIP), being considered in a separate report, is approved.
- A £700,000 increase in contribution to the Repairs Fund due to increased expenditure on voids works to bring properties up to the required standard for re-letting.
- A £2,820,000 increase in the Revenue Contributions to Capital Outlay, (RCCO). This is to fund the additional expenditure, on electrical works, asbestos removal, boiler replacements, kitchens and bathrooms, refurbishment of Acorn Court and increased aids and adaptations, discussed in further detail in the separate report being brought to this Executive.
- A £406,300 decrease in the estimated Balance Brought Forward from 2010/11. This is mainly due to the request for additional funds for the voids contract, to ensure void properties are brought up to the required standard for re-letting, £400,000, plus £6,300 reduction in anticipated Interest on Balances.
- A £95,900 increase in Supervision and Management, to fund the cost of new posts being requested in a separate report at this meeting.
- £22,100 increase to the Major Repairs Allowance, (MRA), in the Final Subsidy Determination, required a similar increase to the depreciation adjustment required to bring actual depreciation into line with the (MRA).

12. RISK MANAGEMENT AND SENSITIVITY ANALYSIS

- 12.1 The risks, and appropriate control mechanisms, for the 2011/12 HRA and the rent increase process are considered to be:

Revenue

- The County Council completed the reviews of all the current Supporting People contracts in 2009 and extensions were granted to vary these contracts until the end of 2012. The extensions were necessary as the County Council is still in the process of undertaking a Strategic Review of all of its support services and this is expected to

continue throughout 2010/11. The main risk relating to the extension of the contracts is the introduction of a 3 month termination clause. This could have an adverse impact on income if the terminated clause is implemented before the end of the extension period originally granted by the County. The Supporting People Commissioning Body is likely to use this programme to change existing patterns of expenditure and introduce a new mix of schemes that will receive funding in the future. This can only be achieved through decommissioning existing schemes and it is known that those schemes providing support for older people will come under particular scrutiny as these currently take up the majority of the available funding. This could mean that proposals are brought forward that impact on the funding of our contracts.

- Changes to void levels or lengthening re-let times, for either dwellings or garages, would affect income receipt. Effective management of void rent loss is critical to efficient service delivery, recognised by its inclusion as one of the proposed top 21 corporate performance indicators and scrutinised regularly by the service area's management team.
- Similarly, close monitoring of the rent arrears situation is being undertaken with every effort being made to contain any increase in current arrears. However, if the situation should deteriorate, due to the current economic situation, it is not expected to have to increase the level of Bad Debt Provision as this will be contained by controlling the amounts written-off to the account.

Capital

- The position regarding 'Right to Buy' (RTB), sales of council homes has improved somewhat with 6 sales to date in 2010/11, and further one in the pipeline. Receipts from the 6 sales have been included in the HIP estimates. However, in the interest of prudence, the 2011/12 budget currently has no sales included.
- The capital receipts from RTB sales have traditionally been used to support General Fund housing initiatives, particularly grant provision for private sector housing. The Council's own housing stock tends to have 'second call', on any available receipts.
- Members may, in future, wish to reconsider this decision when self financing of the HRA is introduced.

12.2 These key risks have been considered when setting the HRA budget for 2011/12. A sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows:-

- 20% reduction in Supporting People income = £117,000
- Currently no anticipated receipts from RTB sales have been included for future years. Each sale generates an average 'usable capital receipt' of around £29,000 for house sales and £11,600 for flats, at 2010/11 prices. This equates to 25% of the capital receipt, which the

Council is allowed to retain.

- 0.5% change in void rent loss = £109,900 increase or decrease to rental income.
- Loss of rental income due to RTB sales = £3,940 per property for a full year, half of this, £1,970 if taken as an average.

12.3 Were any, or all, of these possibilities to arise the impact could be accommodated within the proposed HRA budget for 2011/12.

Application of the Government's Rent Restructuring Guidelines

- 1.1 The rent restructuring formula is designed to bring all social housing rents into line so that a similar sized property within a particular area will cost the same regardless of its landlord. All social housing rents are now set using a prescribed national formula designed to bring about this realignment.
- 1.2 The formula uses a 'National Average Rent' which is then varied to account for regional rent variations. In each locality the first component of the formula is to take 70% of the National Average Rent and adjust this figure by the average level of manual earnings in the area, with a further adjustment for a set 'bedroom weighting' factor. The second component is to take the remaining 30% and adjust this to take account of relative property values within the area compared to a set national average value. This enables a 'Formula Rent' to be calculated for each individual property.
- 1.3 The Formula Rent is integral to the Rent Restructuring process as the guidelines are designed to ensure actual rents converge with the Formula Rent, eliminating the current differences between them. Initially convergence was planned for 2011/12 but the revised guidelines now envisage convergence in 5 years time at around 2015/16. If rent restructuring had already been completed and we were charging our tenants at Formula Rent levels, the average rent for 2010/11 would have been £79.44, as shown at Column 2 of Appendix 2, compared to the actual average rent charge of £70.51, as shown at Column 4.
- 1.4 Rent restructuring is deliberately designed to be a gradual process preventing the possibility of the desired parity in rents only being achievable through a single or series of unaffordable rent increases. Actual average rent levels will therefore be below the Formula Rents in any given year until at least the projected convergence in 2015/16. The policy also provides for a system of 'caps & limits', designed to ensure that individual property rents do not rise at a rate significantly above the average, minimising the risk of rents becoming unaffordable for individual tenants. The application of these caps and limits further depresses the actual average rents charged. Had 'caps and limits' not been applied up to 2010/11, the actual average rent charged in this year would have been £74.57 rather than £70.51. This higher figure is classed as the 'unconstrained rent' and is shown at Column 3 of Appendix 2.
- 1.5 When calculating the 2011/12 rents, the rent restructuring Guidelines have to be applied. Firstly, the Formula Rents are increased by the inflation rate prescribed in the guidance. This is a set percentage, which this year is 5.1%. This has increased the average Formula Rent to £83.49, as shown in Column 5.

- 1.6 The next stage is to apply the same percentage increase, to the Unconstrained Rent, the rent which would be charged if no constraining 'caps or limits' were applied. As the purpose of rent restructuring is, of course, to narrow the gap between Actual Rents and Formula Rents a second uplift is also applied to this part of the calculation. This uplift is calculated by dividing the difference between the Unconstrained Rent and the Formula Rent for each property by the number of years left until the target date for convergence. This means the uplift for the current year's rents will be 1/5th of the difference between the Unconstrained Rent and the Formula Rent.
- 1.7 Column 6 shows the impact of these uplifts on 'Unconstrained' Rents'. The average Unconstrained Rent payable will increase by £3.63 to £78.20.
- 1.8 The final stage is to compare the Unconstrained Rent with the Actual Rent charged in the previous year. The purpose of this part of the calculation is to ensure that the rent increase charged for each individual property does not exceed the prescribed guideline increase of 5.1%, (inflation 4.6% + 0.5% 'real', to enable the move to convergence), plus £2. This limiting factor is calculated for each property and compared with the Unconstrained Rent. The lower of the two amounts is charged as the Actual Rent. Currently, 98% of our rents are constrained by this limit and have an Actual Rent that is below the Unconstrained Rent.
- 1.09 The actual average rent to be charged is shown in Column 7. This will now be £75.79, a £5.28 or 7.49% increase on the actual average rents charged in 2010/11 (Column 4).