AGENDA ITEM:

REPORT TO:	**CABINET.**	**DATE:**	**20 FEBRUARY 2014**
HEADING:	**COUNCIL HOUSE RENT SETTING 2014/15 AND HRA BUDGETS (REVISED 2013/14 AND ORIGINAL 2014/15)**		
PORTFOLIO HOLDER:	**HOUSING/CORPORATE SERVICES**		
KEY DECISION:	**YES**	**SUBJECT TO CALL-IN:**	**YES**

1. PURPOSE OF REPORT

To present for consideration the HRA Revised Estimate for 2013/14 and Original Estimate for 2014/15 including the setting of Council House Rents.

2. RECOMMENDATION(S)

To consider and approve the budgets for the HRA for 2013/14 (revised) and 2014-15.

To set an average rent increase of 2% for council house rents for 2014/15.

To set a garage rent increase of 2% for 2014/15

To increase communal heating charges in 2014/15 to ensure actual energy costs incurred are recovered.

3. REASONS FOR RECOMMENDATION(S)

To approve the budgets for the HRA for 2013/14 (revised) and 2014/15 including the management fee payable to Ashfield Homes Ltd.

To set a rent increase for 2014/15 that provides a balance between setting affordable rents and ensuring the landlord service can remain sustainable.

4. ALTERNATIVE OPTIONS CONSIDERED (with reasons why not adopted)

To not approve the budgets and set the rents and refer for further consideration.

5. BACKGROUND

HOUSING REVENUE ACCOUNT ESTIMATES 2012/13 (REVISED) AND 2013/14

Local housing authorities are required by Section 74 of the Local Government and Housing Act 1989 (the 1989 Act) to keep a Housing Revenue Account (HRA). The HRA reflects a statutory obligation to account separately for local authority housing provision. It identifies the major elements of housing revenue expenditure such as maintenance, administration, and contributions to capital costs and how these are funded, mainly being rents.

The HRA estimates are attached to this report. The 2013/14 revised estimate forecasts a surplus of £1.2m and the 2014/15 estimate forecasts a surplus of £92k. The main movements on the HRA are discussed below.

Rent increase

Under the self financing regime, operational since 1 April 2012, landlord services are funded almost entirely from rents collected. Therefore, if less rent is collected there is a real risk that less money will be available to provide these services. This makes future rent setting particularly important and a balance between setting affordable rents and ensuring the landlord service can remain sustainable has to be reached.

The Department for Communities and Local Government (DCLG) still expects local authorities to follow their national policy guidance which has been in place since 2001, restructuring all social housing rents to reflect local earnings and property values through formula rents. However since the end of the housing subsidy system on 31 March 2012 and the financial constraints that it brought surrounding rent setting, many local authorities have reviewed their rent setting policies and moved away from applying the national guidance. At its meeting on 4 March 2012, the Council resolved to disregard rent restructuring and set an average rent increase of 2% for council house rents for 2013/14.

In a letter to all Housing Authorities in July this year, DCLG advised that the Government are minded not to extend their current policy for rent convergence beyond 2014/15, rather than the planned end date of 2015/16. This makes this rent setting year, 2014/15, the final year under the 2001 guidance.

In the same letter, DCLG also issued details of the Government's proposal on future rent setting policy. Consultation on these proposals ended on 24 December 2013 and the outcomes are awaited. Draft guidance for local authorities on future rent setting was issued as part of the consultation, the key points being:

- The anticipated effective date is 1 April 2015.

- Whilst there is no pre determined end date, the Government has committed to the new policy until March 2025.

- Stock owning local authorities continue to be excluded from rent regulation but are expected to have regard to national guidance when setting rents.

- Where formula rent hasn't been reached by April 2015, landlords are expected to use the existing rent as the basis. However, subsequently moving to formula rent on re-let is acceptable.

- The annual limit for rent increases will change from RPI + 0.5% to CPI +1% from April 2015.

Subject to the outcome of consultation, the Government's proposed future rent policy will commence in April 2015, impacting on the 2015/16 rent setting process. Further updates on the impact of the new proposals will be provided as details emerge.

With 2014/15 being the final rent setting year before new national policy is introduced, it is recommended that the practice of applying an average percentage increase of 2% (as utilised in 2013/14) is repeated. This increase will generate approximately £362k per annum and assist in funding on-going management and maintenance of properties

Garages and Plots

Garages and garage plot sites are allocated into three bands. It is proposed to increase all garage rents by 2% in line with house rents but leave charges for garage plots unchanged. The proposed weekly charges for 2014-15 are:

	Rents 2013/14 £	Rents 2014/15 £	Increase £
Garages			
Band A	5.58	5.69	0.11
Band B	6.24	6.36	0.12
Band C	6.91	7.05	0.14
Plots			
Band A	0.85	0.85	0.00
Band B	1.00	1.00	0.00

Communal Heating Schemes

The charges for communal heating have recently been reviewed to take account of the increase to energy costs over the last number of years, with the forecast of potentially further increases to follow. Users of communal heating pay a weekly charge designed to cover the cost to the Council for providing this heating.

An analysis of forecast costs for 2014/15 show that an increase is required in order to cover the energy costs of the scheme. The proposed weekly charges for 2014-15 are:

	Heating Charge 2013/14 £	Heating Charge 2014/15 £	Increase £
Band A	9.20	10.40	1.20
Band B	9.91	11.20	1.29
Band C	10.40	11.76	1.36
Band D	11.04	12.48	1.44
Band E	11.47	12.97	1.50
Band F	11.94	13.50	1.56

Rent Rebate Subsidy Limitation (RRSL)

RRSL is the charge to the HRA for rent rebates where the actual rent is higher than the limit rent set by the Department of Communities and Local Government (DCLG) for housing benefit purposes. This charge compensates for the reduction to the housing benefit subsidy in the General Fund.

The data for 2014/15 limit rents has not been released by DCLG yet so an estimate has been made. This forecasts that the actual rent will not exceed the limit rent in 2014/15 so no charge to the HRA has been forecast. This will be reviewed once the information regards limit rents is issued by DCLG and will be amended as necessary.

Supporting People

The Nottinghamshire County Council Supporting People Partnership has since 2003 provided funding for the supported housing services including Tenancy Support, Home Visiting and Call Monitoring. Due to a review of their budgets the Supporting People Partnership intends to withdraw all funding for the existing services.

Funding for Home Visiting and Call Monitoring services was due to cease on 31 March

2014. However, this has been extended to 30 November 2014 whilst the services are reshaped by Supporting People. It is anticipated that some of these reshaped services will be offered for tender prior to this date.

Tenants who received a supported housing service prior to the commencement of Supporting People in February 2003 were guaranteed lifetime protection whilst ever the Council provided a service. These are known as Protected Credits and are funded from the HRA. This cost is forecast to reduce from £68k to £42k in 2014/15.

The Supporting People budgets within the HRA are detailed in the table below:

	Original Budget 2013/14	Revised Budget 2013/14	Original Budget 2014/15
	£	£	£
Call Monitoring and Home Visiting			
Expenditure	466,240	466,240	299,660
Income	-397,560	-397,560	-257,840
Net cost of service to the HRA	**68,680**	**68,680**	**41,820**

Social Housing Developments

The Council in its role as landlord has begun exploring opportunities to increase the number of council owned homes in the district. New build developments and schemes to bring empty homes back into use are underway with further schemes being considered for the future.

The original estimate for 2013/14 forecast a contribution from the HRA towards these schemes of £4.9m which has been revised to £1.5m, mainly due to the timing of the start dates for these schemes.

For 2014/15 the contribution is forecast at £3.4m which is lower than originally expected due to a decision to utilise external borrowing to part fund the programme whilst interest rates remain competitive.

Major Repairs to the Housing Stock

The Major Repairs Reserve (MRR) is utilised to fund the capital expenditure required to maintain the Council’s housing stock. The cost of this investment is derived from a 30 year stock condition survey which is currently under review. This review may have an impact on the level of resources needed to fund the major repairs programme in future years.

The MRR receives a contribution from the depreciation provision and allowable capital grants/receipts are also utilised. Any shortfall in funding is then made up from the HRA.

The original estimate for 2013/14 forecast a contribution from the HRA of £3.8m which has been rescheduled to £2.6m then increased again in 2014/15 to £5.7m.

The table below shows the current forecast for the MRR:

	Original Budget 2013/14	**Revised Budget 2013/14**	**Original Budget 2014/15**
	£	**£**	**£**
Opening Balance	0	0	0
Contribution to Capital Programme	6,996,000	5,332,000	8,036,000
Depreciation	-2,321,830	-2,333,440	-2,333,440
Capital Receipts/Grants	-845,000	-425,000	0
HRA contribution to MRR	-3,829,170	-2,573,560	-5,702,560
Closing Balance	**0**	**0**	**0**

Capital Financing Costs

The interest cost for the HRA is calculated by applying the Item 8 Determination as prescribed by DCLG in the Self Financing Determination issued in 2012. The consolidated rate of interest is applied to the debt attributed to the HRA to arrive at an interest cost. Recent refinancing of long term debt at more competitive interest rates has reduced the total interest cost to the Council from which the HRA has benefitted.

Welfare reform

The introduction of the Government's new legislation on Welfare Form and Universal Credits has been implemented in part with the bedroom tax and benefit cap being implemented during 2013/14. Universal credit is still expected to be implemented but an actual date for the Ashfield area is yet to be confirmed.

The 2013/14 bad debt provision was increased to £409k in the original estimate to provide for the potential increase in rent arrears following the planned introduction of direct payments in October. However, due to the delayed implementation this has been adjusted down to £51k for 2013/14.

To be prudent, the arrears position for 2014/15 has assumed that Universal Credit will be implemented during the year so the bad debt provision has been increased again to £232k. This will be kept under review as more information becomes available regards a potential implementation date. Once the system is operational, the bad debt provision will need to be monitored closely and frequently based on the actual impact of rent arrears.

Ashfield Homes Management Fee

The 2014/15 management fee has been negotiated with Ashfield Homes, taking account of the savings required as part of the Housing Options Appraisal review (see below) and Ashfield Homes' growth requests. This will be formally confirmed with Ashfield Homes at the Quarterly Officers Meeting scheduled for February.

The table below shows the 2014/15 Management Fee payable to Ashfield Homes:

2013/14 Management Fee	**11,063,315**
Less:	
Supported Housing Reductions	-166,582
Revised Options Appraisal growth	28,592
Service Level Agreements - reviewed charges	-1,020
Giro charges -charged direct to HRA	-9,000
Ashfield Homes one off growth requests for 2013/14	-76,650
Add:	
Ashfield Homes growth requests 2014/15	342,880
2014/15 Management Fee	**11,181,535**

Housing Options Appraisal Savings Strategy

Full Council approved a report on 17 November 2011 recommending that Ashfield Homes continue to manage the Council's housing stock for the next five years, subject to savings of £2.1m being made over this period. These savings are annually reviewed and the current five year forecast is £1.3m.

ASHFIELD DISTRICT COUNCIL SUMMARY HOUSING REVENUE ACCOUNT BUDGETS 2013/14 (REVISED) AND 2014/15

	Original Budget 2013/14	Revised Budget 2013/14	Original Budget 2014/15
	£	£	£
Income			
Dwelling Rents	(23,389,530)	(23,389,530)	(23,751,820)
Non Dwelling Rents	(166,280)	(179,280)	(182,610)
Charges for Services and Facilities	(173,700)	(184,900)	(230,950)
Supporting People	(397,560)	(397,560)	(257,840)
Interest and Investment Income	(116,080)	(115,780)	(84,690)
Total Income	**(24,243,150)**	**(24,267,050)**	**(24,507,910)**
Expenditure			
Employee Related Costs	371,830	371,830	371,830
Repairs and Maintenance (AHL)	6,467,630	6,467,630	6,496,980
Grounds Maintenance	232,440	232,440	232,440
Other premises related Costs	659,882	679,730	713,680
Supplies and Services	80,500	51,310	60,310
Housing Management (AHL)	3,491,245	3,431,245	3,675,150
Rent Rebate Subsidy Limitation	846,530	586,153	0
Supporting People	466,240	466,240	299,660
Debt Management Costs	50,000	50,000	50,000
Increased provision for bad and doubtful debts	408,820	51,130	232,800
Recharges from General Fund	800,810	790,810	788,750
Depreciation and impairment of fixed assets	2,321,830	2,333,440	2,333,440
Interest payable and similar charges	3,941,690	3,419,700	3,532,650
Direct Revenue Financing	4,850,000	1,529,000	3,426,000
Gain or Loss on sale of HRA fixed assets	0	0	0
Transfer to/from Major Repairs Reserve	3,829,170	2,573,560	5,702,560
HRA Subsidy Receivable/ Payable	0	0	0
Total Expenditure	**28,818,617**	**23,034,218**	**27,916,250**
Contributions from Reserve	(4,699,000)	0	(3,500,000)
Surplus (-)/ Deficit	(123,533)	(1,232,832)	(91,660)
Housing Revenue Account			
Balance Brought Forward	17,410,130	17,410,130	18,642,962
Balance Carried Forward	12,834,663	18,642,962	15,234,622

6. IMPLICATIONS

Corporate Plan:

The report reflects the following priorities in the Corporate Plan:

- *Stronger and more resilient communities where people want to live, work, play and be involved*
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Legal:

No direct legal implications have been identified in this report.

Financial:

Contained with the report

Health and Well-Being / Environmental Management and Sustainability:

No direct implications have been identified in this report.

Human Resources:

No direct implications have been identified in this report.

Diversity/Equality:

No direct implications have been identified in this report.

Community Safety:

No direct implications have been identified in this report.

Other Implications:

No direct implications have been identified in this report.

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CHIEF EXECUTIVE