

AGENDA ITEM:

REPORT TO: CABINET. **DATE:** 12 FEBRUARY 2015
HEADING: COUNCIL HOUSE RENT SETTING 2015/16 AND HRA BUDGETS
(REVISED 2014/15 AND ORIGINAL 2015/16)
**PORTFOLIO
HOLDER:** HOUSING/CORPORATE SERVICES
KEY DECISION: YES **SUBJECT TO CALL-IN:** YES

1. PURPOSE OF REPORT

To present for consideration the Housing Revenue Account (HRA) Revised Estimate for 2014/15 and Original Estimate for 2015/16 including the setting of Council House Rents, Garage Rents and Heating Charges.

2. RECOMMENDATION(S)

To consider and approve the budgets for the HRA for 2014/15 (revised) and 2015-16.

To set an average rent increase of 1.5% for council house rents for 2015/16.

To set a garage rent increase of 1.5% for 2015/16

To increase communal heating charges in 2015/16 by 1.5%.

3. REASONS FOR RECOMMENDATION(S)

To approve the budgets for the HRA for 2014/15 (revised) and 2015/16 including the management fee payable to Ashfield Homes Ltd.

To set a rent increase for 2015/16 that provides a balance between setting rents which are affordable and ensuring the landlord service can remain sustainable.

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

In May 2014, following a period of consultation, the Department for Communities and Local Government (DCLG) issued guidance to stock owning local authorities setting out national rent policy to become effective from 1 April 2015.

The policy expects local authorities to have an annual limit for rent increases of CPI + 1%. This would equate to a rent increase of 2.2% (CPI at September 2014 + 1%) and would set the average rent at £69.28 per week, a £1.49 increase for 2015/16.

Consideration has been given to the difficult financial circumstances faced by tenants and the balances in the HRA and a lower rent increase of 1.5% is being proposed for 2015/16. The difference between applying the advised rate (2.2%) and the Council's proposed rate (1.5%) represents a reduced annual rent income of £170k.

The government announced a series of other initiatives around rent setting including charging up to 80% of market rents (Affordable Rent) on new build properties. Further details are shown at Appendix 2. These initiatives are not being proposed at this time.

Charging Affordable Rents on schemes supported by the Homes and Community Agency is a specific grant funding requirement and this is covered further within this report.

5. BACKGROUND

HOUSING REVENUE ACCOUNT ESTIMATES 2014/15 (REVISED) AND 2015/16

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 2014/15 revised estimate forecasts a surplus of £120k and the 2015/16 estimate forecasts a surplus of £4k after contributions from reserves. The main factors when considering setting the HRA budgets are as follows.

Rent increase

In May 2014, following a period of consultation, the Department for Communities and Local Government (DCLG) issued guidance to stock owning local authorities setting out national rent policy to become effective from 1 April 2015.

The national rent policy is to apply for ten years from 2015. Its intention is to provide the benefit of long term rental certainty to landlords. Specifically for local authorities, the policy aims to support making best use of the opportunities presented by Self Financing, aiding long term housing investment planning.

This makes this rent setting year, 2015/16, the first year under the new guidance. The key points of the new national rent policy being:

- The 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.

To ensure that the Council has the ability to maintain the Council housing stock and invest in future developments, on-going rent increases are necessary and therefore for 2015/16 a 1.5% increase in rents is being proposed. In the absence of a long term rent determination policy it will be essential to review the impact of annual rent increases on the affordability of housing plans including those in the Capital Programme and expenditure budgeted for through the AHL management fee.

Appendix 1 details the impact of applying a rental increase of 1.5% and forecasts a HRA balance of £8.8m as at 31st March 2019.

New Rents – Empty Homes Project

The Council has an Empty Homes Project which involves purchasing properties from landlords which have been empty for a long period of time.

The project has been part-funded from the Homes and Communities Agency (HCA) by way of grant. One of the grant conditions is that the Council will charge 'Affordable Rent' (80% of Market Rent). Further to consultation with the Estates Manager and the Housing Strategy Manager the average 'affordable rents' have been determined as follows:-

	<u>2015/16 Average Market Rent</u> £	<u>2015/16 Average Affordable Rent</u> £
2 bedroom house	91.55	73.24
3 bedroom house	97.38	77.90
4 bedroom house	110.00	88.00

Garages and Plots

Garages and garage plot sites are allocated into three bands. It is proposed to increase all garage rents by 1.5% in line with house rents but leave charges for garage plots unchanged. The proposed weekly charges for 2015/16 are:

	Rents 2014/15 £	Rents 2015/16 £	Increase £
Garages			
Band A	5.69	5.78	0.09
Band B	6.36	6.46	0.10
Band C	7.05	7.16	0.11
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 were reviewed last year to reflect cost increases in previous years. It is proposed to increase them in line with rents in 2015/16. Users of communal heating pay a weekly charge designed to cover the cost to the Council for providing this heating.

The proposed weekly charges for 2015/16 are:

	Heating Charge	Heating Charge	Increase
	2014/15	2015/16	
	£	£	£
Band A	10.40	10.56	0.16
Band B	11.20	11.37	0.17
Band C	11.76	11.94	0.18
Band D	12.48	12.67	0.19
Band E	12.97	13.16	0.19
Band F	13.50	13.70	0.20

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 2015/16 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 2015/16 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

Nottinghamshire County Council's Supporting People Partnership provided funding for the supported housing services including Tenancy Support, Home Visiting and Call Monitoring from 2003. The funding was withdrawn from 30 November 2014 following a review of the scheme.

A business case from Ashfield Homes Limited to create a self financing call monitoring service has been accepted who will utilise their own reserves if necessary. Permission has been granted until November 2015, after which a fundamental review will be completed and a view obtained from members as to the continuation of the service.

The Cabinet approved funding for Home Visiting until 30 November 2015 to subsidise the current service until Nottinghamshire County Council are clear that no further services will be tendered.

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 £42k to £37k in 2015/16.

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

	Original Budget 2014/15	Revised Budget 2014/15	Original Budget 2015/16
	£	£	£
Call Monitoring and Home Visiting			
Expenditure	299,660	370,780	203,380
Income	-257,840	-257,840	0
Net cost of service to the HRA	41,820	112,940	203,380

Social Housing Developments

The Council in its role as landlord has been working on new build developments and a project to bring empty homes back into use. This will increase the number of council owned homes in the district.

- Brook Street Court has now been completed on the site of the former Sutton Pools complex and will provide 25 1 and 2 bedroom properties for people over 60.
- Darlison Court in Hucknall is now well underway and is expected to be completed in 2016. The development on this site will replace 32 bedsits for people over 60 with 39 1 and 2 bedroom apartments for people over 60.
- 20 Empty Homes have been purchased and refurbished by the Council, with grant from the HCA to add to the housing stock. This project is expected to be completed and all properties to be available for new tenants by 1 April 2015.

The original estimate for 2014/15 forecast a contribution from the HRA towards these schemes of £4.9m which has been revised to £2m, mainly due to the timing of the start dates for Darlison Court. As a result, the contribution for 2015/16 is forecast at £4.5m, which is higher than originally expected.

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 has been recently completed and reflected in the Capital Programme approved by Cabinet in December 2014.

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 2014/15 forecast a contribution from the HRA of £5.7m which has been rescheduled to £3.9m then increased in 2015/16 to £4.9m.

The table below shows the current forecast for the MRR:

	Original Budget 2014/15	Revised Budget 2014/15	Original Budget 2015/16
	£	£	£
Opening Balance	0	0	0
Contribution to Capital Programme	8,036,000	6,258,000	7,279,000
Depreciation	-2,333,440	-2,380,500	-2,377,170
Capital Receipts/Grants	0	0	0
HRA contribution to MRR	-5,702,560	-3,877,500	-4,901,830
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 2014/15 bad debt provision was increased to £233k 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 £15k for 2014/15.

To be prudent, the arrears position for 2015/16 has assumed that Universal Credit will be implemented during the year so the bad debt provision has been increased again to £216k. This will be kept under review as more information becomes available regarding a potential implementation date. Once the system is operational, the bad debt provision will need to be monitored closely and based on the actual impact of rent arrears.

Ashfield Homes Management Fee

The 2015/16 management fee has been negotiated with Ashfield Homes. As part of the Council's Asset Rationalisation, Fox Street is to close and staff are to move to the AHL Head Office in Brook Street. This will reduce costs for both the General Fund and the HRA.

The table below shows the 2015/16 Management Fee payable to Ashfield Homes:

2014/15 Management Fee	11,181,535
Less:	
Supported Housing Reductions	-96,278
Ashfield Homes one off growth requests for 2014/15	-119,020
Add:	
Service Level Agreements - reviewed charges	-83,645
Brook Street Accomodation - ADC paying 25% of costs (move from Fox Street)	-26,495
Ashfield Homes growth requests 2015/16	176,000
2015/16 Management Fee	11,032,097

Housing Revenue Account 2014/15 Revised Estimate and 2015/16 Original Budget

The main elements of the HRA have been discussed within this report and reflected in the Summary HRA Budget proposed overleaf for approval.

**ASHFIELD DISTRICT COUNCIL SUMMARY HOUSING REVENUE ACCOUNT
BUDGETS 2014/15 (REVISED) AND 2015/16**

	Original Budget 2014/15	Revised Budget 2014/15	Original Budget 2015/16
	£	£	£
Income			
Dwelling Rents	(23,751,820)	(23,873,000)	(24,231,095)
Non Dwelling Rents	(182,610)	(169,610)	(172,154)
Charges for Services and Facilities	(230,950)	(263,530)	(245,030)
Supporting People	(257,840)	(257,840)	0
Government Grants	0	(33,983)	0
Interest and Investment Income	(84,690)	(93,124)	(70,986)
Total Income	(24,507,910)	(24,691,087)	(24,719,265)
Expenditure			
Employee Related Costs	371,830	375,330	375,330
Repairs and Maintenance (AHL)	6,496,980	6,496,980	6,521,980
Grounds Maintenance	232,440	232,440	240,940
Other premises related Costs	713,680	668,130	760,790
Supplies and Services	60,310	91,870	100,720
Housing Management (AHL)	3,675,150	3,675,150	3,556,707
Rent Rebate Subsidy Limitation	0	0	0
Supporting People	299,660	370,780	203,380
Debt Management Costs	50,000	0	0
Increased provision for bad and doubtful debts	232,800	14,930	216,380
Recharges from General Fund	788,750	780,980	780,980
Depreciation and impairment of fixed assets	2,333,440	2,380,500	2,377,170
Interest payable and similar charges	3,532,650	3,565,750	3,531,680
Direct Revenue Financing	3,426,000	2,040,000	4,547,000
Gain or Loss on sale of HRA fixed assets	0	0	0
Transfer to/from Major Repairs Reserve	5,702,560	3,877,500	4,901,830
HRA Subsidy Receivable/ Payable	0		
Total Expenditure	27,916,250	24,570,340	28,114,887
Contributions from Reserve	(3,500,000)	0	(3,400,000)
Surplus (-)/ Deficit	(91,660)	(120,747)	(4,378)
Housing Revenue Account			
Balance Brought Forward	18,642,962	19,688,769	19,809,516
Balance Carried Forward	15,234,622	19,809,516	16,413,894

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