Derby City Council

Adults, Health and Housing Commission
23 January 2012

ITEM XX

Report of the Strategic Director of Adults, Health and Housing

Housing Revenue Account Business Plan and Rents 2012/2013

SUMMARY

1.1 The financial system for managing the Housing Revenue Account (HRA) is about to change fundamentally.

1.2 From April 2012 the current Housing subsidy system will be abolished and replaced with a new self financing regime. This will mean that the Council will be able to retain all rents locally and no longer be obliged to pay over a proportion to the government.

1.3 The new funding regime, if managed correctly, will allow for additional resources to be invested within the HRA. The availability of such resources will, however, be highly dependent on the level of rent increases imposed on tenants.

1.4 This report sets a strategy for approval by the Council to utilise any additional resources and recommends a rent increase and suggested rent policy to support the strategy.

RECOMMENDATION

2.1 To approve the 30 year HRA business plan as set out at appendix 2.

2.2 To approve an average rent increase of 8.30% as set out in section 5 of the HRA business plan shown at appendix 2.

2.3 To approve the principle of approving increases to service charges at the level of cost increases where charges have been levied at cost, with exceptions to this principle brought back specifically for approval.

REASONS FOR RECOMMENDATION

3.1 The financial system for managing the Housing Revenue Account (HRA) is to change fundamentally. This change, if managed correctly, will generate additional resources. As Housing is a long term asset it is important that a longer term view is taken around asset management and the utilisation of any additional resources. Therefore approval is sought for a proposed 30 year HRA business plan that sets a strategy to manage the HRA into the future.

3.2 Within the assumptions, for the self financing settlement, is an implied rent increase for the current year and an implied rent policy for the subsequent 3 years. Without the rent increases at the level implied by settlement, resources would be reduced considerably and the viability of the plan would need to be revisited.

SUPPORTING INFORMATION

4.1 The changes to the financing system for the HRA are fundamentally different to those that exist at present. Under the current subsidy system the Council pays over to the government around £5 million per year rising to in excess of £30 million by around 2032 using the latest estimates. Under the self financing proposals the Council would have to 'buy itself out' of the current system by taking on additional debt. In return for this extra debt the Council would be able to retain all of the receipts it generates from Council rents and service charges and spend them locally.

4.2 The approximate level of debt to be taken on is around £29.5 million bringing the total HRA debt – existing and new - to around £237.9 million. This debt would be serviced entirely from HRA resources but, even allowing for this, the HRA would still be significantly better off than under the existing financing system. Latest forecasts indicate that the HRA would have around £3 million more to spend on investment in the housing stock than at present.

4.3 The new self financing regime also allows for much more certainty around the amount of funding available. Under the current system the Council receives an annual subsidy determination which largely dictates how much money is available to spend within the HRA. This makes long term planning very difficult as funding can vary from one year to the next depending on national government policy. With the new self financing proposals this uncertainty would be taken away as the Council would be able to retain all of the money that it generates from rents and service charges and also to determine the level of such charges.

4.4 To maximise the opportunity that these proposals represent, it is important to prepare a coherent plan that sets out a strategy to spend any additional resources available in the most effective way. A detailed 30 year HRA business plan has therefore been prepared which sets out this strategy. The detailed HRA business plan is shown at Appendix 2.

4.5 A key element that underpins the HRA business plan is the level of rents that are charged to tenants. The self financing proposals, although offering more autonomy, do assume a certain level of rent increase in the first few years of the new regime. For the first four years of self financing it is assumed that the existing rent restructuring policy is maintained – that is increases of RPI plus a half plus an element to reach rent convergence. This means that for 2012/2013 the average rent increase would be around 8.3% followed by further increases of totalling around 9% over and above inflation spread over the remaining 3 years. Clearly these are not insignificant rises, however it is crucial that these assumptions are implemented or resources available within the HRA – services and investments for tenants - would be severely restricted and the viability of the plan would need to be revisited.

4.6 A detailed rent policy is shown within section 5 of the HRA business plan at appendix 2

4.7 Service charges have, in the past, been generally increased by RPI plus a half a percent in line with government guidance. However, this guidance is no longer applicable under the new self financing regime and therefore a new method of limiting increases to such charges is now required. It is proposed that as a general policy all future increases to service charges will be limited to increases in the operating costs associated with those service charges where charges are in line with costs. Any exceptions to this – for instance where charges are inadequate to meet costs – would be brought to Council for further approval.

4.8 A detailed review of utilities and concierge service charges has been undertaken and the proposed charges are shown at appendix 3.

OTHER OPTIONS CONSIDERED

5.1 The proposed HRA business plan has been subject to extensive consultation with officers, members and tenants and Derby Homes. It now considered that the plan in its current form reflects the views of those consulted.

5.2 A range of rent options were considered but given the current economic climate and the need to adhere to the assumptions within the self financing settlement, the current rent proposals offer the best solution.

This report has been approved by the following officers:

Legal officer	
Financial officer	Toni Nash
Human Resources officer	
Service Director(s)	
Other(s)	Ian Fullagar

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Background papers:	None
List of appendices:	Appendix 1 – Implications

Appendix 1

IMPLICATIONS

Financial and Value for Money

1.1 Set out in the detailed HRA business plan at appendix 2.

Legal

2.1 The Council is required to set a balanced budget for its Housing Revenue Account and that costs are charged appropriately to either the HRA or to the General Fund.

Personnel

3.1 None directly

Equalities Impact

4.1 Many of the Council's tenants belong to the Council's equality target groups

Health and Safety

5.1 None directly

Environmental Sustainability

6.1 Several environmental initiatives are included with the HRA business plan such as improving thermal efficiency, installation of photovoltaic cells and installation of modern energy efficient heating systems.

Asset Management

7.1 A detailed asset management plan is included with the HRA business plan shown at appendix 2.

Risk Management

8.1 A risk register has been included within the HRA business plan shown at appendix 2.

Corporate objectives and priorities for change

9.1 The delivery of the HRA Business Plan will assist the Council to achieve its key strategic outcomes set out in the Derby Plan 2011 – 2026 and the Council Plan 2011 – 2014.