



Derby City Council

**Planning, Housing and Leisure Board
28 January 2014**

Report of the Strategic Director of Adults,
Health and Housing

ITEM 8

Housing Revenue Account Business Plan 2014/44 and Associated Rents and Service Charges Increases for 2014/15

SUMMARY

- 1.1 The HRA has now had 18 months since the debt settlement of 2012 which gave Council Housing a sustainable financial position for the future, but it now faces a number of challenges:
- Welfare reform – Universal credit impacting on rental income
 - Likely constraints on future rent increases – rent convergence looks likely to be stopped a year early effectively limiting the amount of income derived through rent increases
 - Continued right to buy (RTB) losses
 - Uncertainties relating to the debt Cap
 - Restrictions on income derived through Service Charges
- 1.2 The full impact of some of these challenges will not be felt for a number of months, however at this stage; the 2014/15 update to the HRA business plan indicates that the Council can still achieve the Council's key aspirations. The key features in this year's update to the plan are:
- To identify that at the current time financial capacity exists for up to 400 additional homes to be delivered through the HRA over the next three to four years.
 - To identify that the Supported Living Service can be part funded through the HRA with Derby Homes meeting the remainder of the cost.
- 1.3 The rental income assumptions that underpin HRA Business Plan are critical if it is to successfully deliver against its objectives. The government has made it clear that there will be further restraint on rent levels from 2015/16, as it appears that individual rents will be restricted to CPI (inflation) plus 1% in any one year. The rent increase for 2014/15 therefore appears to be the last one before this restriction is imposed. This report and the HRA Business Plan proposes a maximum rental increase of RPI+0.5%+£4 subject to the final details of government rent policy which are still to be issued.

RECOMMENDATION

- 2.1 To note and consider the proposed 2014/15 update of the rolling 30 year HRA business plan.
- 2.2 To note that the proposed average rent increase should be RPI + 0.5% + £4 as set out in the HRA business plan subject to confirmation of the limit rents from Department of Works and Pensions.
- 2.3 To note that increases to other Council rents are proposed to be set in line with RPI at January 2014.
- 2.4 To note that proposed increases to Service Charges to tenants are in line with the previous policy of increasing them in line with inflation, with the exception of furniture packs which are to be frozen.

REASONS FOR RECOMMENDATION

- 3.1 To ensure that members of the Planning, Housing and Leisure Board are fully informed of the context, background and proposals contained within the HRA Business Plan and the rent increase assumptions that are integral to it.
- 3.2 To ensure that members of the Planning, Housing and Leisure Board have the opportunity to comment on the HRA business Plan and associated rent increases.

SUPPORTING INFORMATION

- 4.1 Under the rules for self-financing of Council Housing the Council has had to 'buy itself out' of the previous system by taking on additional debt. In return for this extra debt the Council is able to retain all of the income it generates from Council rents and service charges and the receipts from RTB sales and re-invest such resources locally.
- 4.2 The approximate level of debt taken on was around £28.2 million bringing the total HRA debt – existing and new - to around £230 million. This debt is serviced entirely from HRA resources but, even allowing for this, the HRA is still significantly better off than under the previous HRA Subsidy system. The HRA has around £3 million per year more to spend on investment in the housing stock than under the previous system.
- 4.3 The new self-financing regime also allows for much more certainty around the amount of funding available. Under the previous HRA Subsidy system the Council received an annual subsidy determination which largely dictated how much money was available to spend within the HRA. This made long term planning very difficult as funding could vary from one year to the next depending on national government policy. With the new self-financing system this uncertainty is largely taken away as the Council is able

to retain all of the money that it generates from rents and service charges and also to some extent determine the level of such charges.

- 4.4 Despite the more favourable financial position of the HRA there are however a number of significant risks inherent under the new self-financing regime most notably:
- Welfare reform – Universal credit reducing the rental income received
 - Likely constraints on rent increases – rent convergence is likely to be stopped a year early reducing future rent increases
 - High levels of right to buy sales – recent government announcements, when implemented are likely to increase RTB levels
 - Restrictions relating to income derived through service charges
 - Uncertainties relating to the debt cap and long term interest rates.
- 4.5 Management of these risks going forward will be crucial to the success of the plan. To maximise the opportunities of self-financing and to best mitigate against the risks identified above, it is important to prepare a coherent plan that sets out a strategy to spend the additional resources available in the most effective way. An update to the rolling 30 year HRA business plan has therefore been prepared which sets out this strategy.
- 4.6 One of the major priorities for Council is the creation of new Council Housing within the city. The proposals contained within the HRA business plan provide the financial capacity to fund the building of around 400 new properties over the next 3 to 4 years – subject to the availability of appropriate development and/or acquisition opportunities.
- 4.7 Tenant involvement is strong within the city with Tenants making up one third of the Board of Derby Homes. Residents' views are sought at a variety of levels, for example they were widely consulted on maintenance priorities that form the basis of this plan. Tenants are also involved in a number of other areas for example, regular housing focus groups are held across the city to discuss issues and to consider the use of 'quick fix' funds for each area for local improvements and issues. Resident involvement helps to increase both accountability and value for money.
- 4.8 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. The government has made it clear that there will be further restraint on rent levels from 2015/16, as it appears that individual rents will be restricted to CPI (inflation) plus 1% in any one year. The rent increase for 2014/15 therefore appears to be the last one before this restriction is imposed. If the HRA Business Plan is to achieve its objectives, it is important that the Council makes sufficient use of this final year of unrestricted rent increases whilst at the same time balancing these considerations with the significant financial pressures that many tenants are currently experiencing. This report and the HRA Business Plan proposes a maximum rental increase of RPI+0.5%+£4 subject to the final details of government rent policy which are still to be issued. With such an increase rents will remain well below market levels and the level of the Local Housing Allowance.

4.9 In summary, the proposals in the HRA Business Plan will provide;

- The financial capacity to allow for the provision of up to 400 homes over next three to four years
- The continuation of estate based improvements,
- Additional funding for the Supported Living Service (subject to a separate cabinet report)
- Safeguarding of the higher level of spending on general maintenance.

4.10 In addition, Derby Homes fee will be further reduced by £250,000 in real terms next as the final year of the Business Transformation programme. Their fee will also be reduced by £88,000 as a result of the loss of housing stock from the Right to Buy. Increases to the fee (other than for inflation and pension adjustments) are proposed as follows:

- £200,000 addition to fund the replacement to the Supported Living Service (subject to a separate cabinet report)
- £90,000 addition to fund additional staff to collect rents
- £120,000 addition to fund on-going electrical testing on a 5 year rather than a 10 year cycle.

4.11 The rent increase indicated in paragraph 2.2 above is considered the most appropriate balance of securing sufficient income to enable the objectives of the HRA Business Plan to be achieved, whilst at the same time ensuring that tenants continue to pay rents which are affordable and represent good value for money.

OTHER OPTIONS CONSIDERED

5.1 The proposed HRA business plan and associated rent and service charge increases for 2014/15 have been subject to extensive consultation with tenants, officers, members and Derby Homes. It is now considered that the plan in its current form and the proposed rental and service charge increases best reflects the views of those consulted.

5.2 A range of rent options were considered but given the current economic climate and associated financial pressures facing tenants and the need to adhere to the assumptions within the self-financing settlement, the current rent proposals are considered to offer the most balanced overall solution.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Service Director(s)	Olu Idowu Toni Nash/Peter Shillcock N/A Brian Frisby
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Other(s)	N/A
For more information contact: Background papers: List of appendices:	Name 01332 640333 e-mail ian.fullagar@derby.gov.uk None Appendix 1 – Implications

IMPLICATIONS

Financial and Value for Money

- 1.1 As set out in the report and HRA business plan.

Legal

- 2.1 The Council is required to set a balanced budget for its Housing Revenue Account and ensure 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 bespoke Asset Management Plan underpins the HRA cyclical maintenance programme

Risk Management

- 8.1 Risks are managed through a number of Council and Derby Homes governance structures including the joint HRA Capital Board and the Strategic Asset Management Board (SAMB).

Corporate objectives and priorities for change

- 9.1 The delivery of the HRA Business Plan will assist the Council to achieve key strategic outcomes set out in the Council Plan 2011 – 2014 relating to the provision

of “More good-quality and affordable housing”.