

APPENDIX C HOUSING REVENUE ACCOUNT (HRA)

HRA ESTIMATES AND HOUSING CHARGES FOR 2012/13

Recommendations

1. Cabinet is requested to recommend to Council that:
 - (a) from the first rent week in April 2012, rents for existing tenants are increased in line with the Department of Communities and Local Government (CLG) guidelines, based on an inflationary adjustment of 6.1%, with a maximum variation of £2.00 towards the phasing in of rent restructuring;
 - (b) charges for other services and facilities are increased as outlined in **Appendix C2**; and
 - (c) that the revised Housing Revenue Account estimates for the year 2011/12 and the revenue estimates for 2012/13 be approved as submitted in the HRA summary (**Appendix C1**); and

Reasons for Recommendations

2. The draft HRA estimates and proposed housing rents and charges need to be endorsed by Cabinet and recommended to the Council. The final approval of the HRA estimates and the levels of rent and housing charges will be decided by the Council on 23 February 2012.

Background

3. This report relates to Housing Revenue Account estimates and the setting of rents and charges. The housing charges are considered more comprehensively within the Executive Director (Corporate Services) report to the Housing Portfolio Holder on the Housing General Fund estimates.
4. A fundamental change in the way in which the HRA is financed will take place from 2012/13; with the new "self-financing" regime resulting in the HRA taking of a debt at the end of March 2012 of £205.1 million. This can be seen as the cost to the Council of buying itself out of the negative subsidy system under which the Council was required to pay over £12 million of its rent income to the Government.
5. In the past the HRA estimates were considered by the Housing Portfolio Holder alongside the Housing General Fund estimates. The move to a self-financing arrangement has brought with it a need to re-examine the treasury management strategy and a requirement to produce a 30 year business plan. Both the treasury management strategy and the 30 year plan are being considered in detail at this meeting, and to avoid duplication, only the Housing General Fund revenue and capital estimates were considered by the Housing Portfolio Holder at his meeting on 18 January 2012.
6. The Portfolio Holder did, however, consider and endorse the proposed housing charges for 2012/13 as set out at **Appendix C2**. The Housing Revenue Account

estimates (**Appendix C1**) and the 30 business plan projections incorporate these proposed charges together with a rent increase in line with Government rent restructuring regime.

7. Provisions for inflation have been applied to individual estimates only in cases where price increases can be justified. No automatic inflation allowance has been applied, but the 2.5% overall assumption of non-pay inflation in the Medium Term Financial Strategy remains as the overriding level of provision.

Considerations

8. For several years the Council has been required to make a payment to the Government from the HRA known as a negative housing subsidy. For 2011/12, this is estimated to be £12.5 million being 53% of the rent income from dwellings. The system is currently changing to one where instead of paying funds to the Department of Communities and Local Government (CLG), Councils, such as South Cambridgeshire, will be given a share of the debt of other authorities with a HRA.
9. The new self-financing regime will begin in 2012/13, with the HRA taking on a debt at the end of March 2012. This debt is £205.1 million. No repayment of the debt principal is planned for some years and the 2012/13 estimates include an amount for interest (at 3.5%) of £7.2 million. Whilst this is a considerable sum it is far less than the amount payable to the Government would have been had the subsidy system remained.
10. Because the HRA will incur interest charges in 2011/12, as a result of the implementation of self-financing, an allowance for this has been made by the CLG in the negative subsidy payment for the cost of the interest falling on the HRA in 2011/12. No allowance has, however, been made for the transaction cost of the loan and this expenditure is reflected in the increased treasury management charge in the revised estimate compared to the original for 2011/12.
11. The Finance and Staffing Portfolio Holder approved the Staffing and Central Overhead Estimates on 20 December 2011. The recharges approved at that meeting are recharged to all services, as appropriate, and these have been included in the estimates.
12. At the meeting on 18th January 2012 the Housing Portfolio Holder agreed to a restructuring of the Affordable Homes Service to meet the new demands arising from the introduction of the self-financing regime, changes to the housing regulatory framework and the necessity to review the way sheltered service is provided. A figure of £560,000 has, therefore, been included in the draft HRA estimates for the anticipated additional recharges following from these restructuring proposals.
13. A reduction in the level of financial assistance available for sheltered housing residents entitled to benefit has been the impetus for a review of the service provided by sheltered housing staff. By targeting the support given by staff to those in need, it is hoped that, although residents will pay less for support, they will still receive a good standard of service. Both the impact of the reduction in income and the restructuring proposals relating to sheltered housing staff have been incorporated in the draft HRA estimates. A final decision on the shape of the service is to be taken by the Housing Portfolio Holder at his February meeting.

14. An estimate for additional capital expenditure to be funded from revenue has been included in the 2012/13 draft HRA estimates mainly to meet tenant priorities in relation to disabled adaptations, heating, insulation, estate paths and roads.
15. The Council is still awaiting a final decision on how a figure for depreciation is to be calculated with the advent of the self-financing regime. The figure of £5.5 million in the 2012/13 estimates is based on the amount considered by the Government to be needed to maintain the condition of the actual homes as a recent consultation on depreciation appeared to favour the proposal that this method of arriving at the minimum amount of depreciation chargeable to the HRA could be used for the first five years of self-financing.
16. The government intends that rent setting in the social housing sector should be brought onto a common system related to relative property values, local earnings levels and the size of individual properties. The guidance on this rent restructuring scheme provides a formula by which a target rent for each property is calculated and rents are expected to move to the target level over several years.
17. To protect tenants from unacceptable annual increases, the government asked Councils to limit individual rent increases to £2 a week in excess of the annual inflationary figure set by the CLG (of RPI +0.5%).
18. The inflationary figure to be applied to this year's rent, in line with the government's guidance, is 6.1% (based on the September 2011 annual Retail Price Index increase of 5.6% plus 0.5%). To this must be added the amount, if any, required to move towards the target rent, which would bring average increase to 7.9% and the average rent £91.10 per week.
19. This level of increase has been assumed in the calculations by the Government for the purposes of the self-financing settlement and, therefore, not to follow the guidance could result in future funding problems.
20. The 2012/13 estimates include charges at the level recommended by the Housing Portfolio Holder and listed in **Appendix C2**.
21. The estimates have been prepared on the basis that, as in previous years, the minimum level of working balance is £2 million. It is, however, proposed that an additional £1 million is set aside to establish a self-insurance fund reserve. A full report on the detailed scheme will be considered in due course. If this proposal is accepted the combined HRA minimum balance would increase to £3 million from the end of March 2013 and this level has been incorporated into the HRA 30 year Business Plan.
22. Only a small portion of the Council Homes are insured and the rationale behind setting up a specific HRA self-insurance reserve is to mitigate the consequential risk to the business plan of a, potentially substantial, unexpected drain on resources. Such a fund would only be used for expenditure of over £3,000 arising from damage in relation to an insurable risk (such as fire, subsidence, flood etc.). "Claims" for the use of the fund would be assessed in a similar manner to way the Council's insurer deals with claims on the equity share and flats policy.

Implications

Financial	The financial implications are contained in the body of the report
Legal	There is a statutory obligation for the HRA not to be in deficit

Staffing	Provided Members approve the proposed rent and charge levels, there do not appear to be any staffing implications.
Risk Management	The likelihood of a reduction in funding for supported housing has already been identified on the Council's Strategic Risk Register. Provided Members approve the proposed rent and charge levels, there do not appear to be any additional risk management implications.
Equality and Diversity	There are no direct equality and diversity implications resulting from this report. Equality and diversity issues will have been considered in the decisions which the estimates reflect.
Equality Impact Assessment completed	No
Climate Change	No

Consultations

23. The relevant cost centre managers, who are responsible for setting the level of their respective budgets and controlling the expenditure and income within them, have been consulted on the proposed 2012/13 estimates. Tenant consultation has taken place on spending priorities.

Effect on Strategic Aims

24. To determine rents and other housing charges to provide the resources for the Council to continue its housing services to achieve its strategic aims as far as possible within the current financial constraints.

Conclusions/Summary

25. The draft HRA estimates include income from rents and charges at the level recommended by the Portfolio Holder. Any variations to the proposed levels of rent and charges may require reconsideration of the HRA budget.
26. In line with the government's recommendation it is proposed that rents for existing tenants are increased by an average of 7.9% based on an increase of 6.1% plus or minus a maximum of £2 towards restructuring.
27. **Appendix C2** sets out proposed variations in garage other housing charges for 2012/13.

Background Papers: the following background papers were used in the preparation of this report:

The Revenue and Capital Estimates Report presented to the Housing Portfolio Holder on 18th January 2011

Contact Officer: Gwynn Thomas – Principal Accountant (Housing)
Telephone: (01954) 713074