

## APPENDIX C

### HOUSING REVENUE ACCOUNT (HRA) ESTIMATES AND HOUSING CHARGES FOR 2015-16

#### Recommendations

1. Cabinet is requested to recommend to Council that:
  - a) the Housing Revenue Account (HRA) estimates for the year 2015-16 be approved as submitted in the HRA summary set out in **Appendix C1**;
  - b) from the first rent week in April 2015, rents for existing tenants are increased by 2.2% in line with the Department of Communities and Local Government (CLG) guidelines; and
  - c) charges for other services and facilities are changed as outlined in **Appendix C2**.

#### 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 26 February 2015.

#### Background

3. This report relates to HRA estimates and the setting of related rents and charges.
4. The staffing and central overhead estimates are recharged to the HRA as appropriate and reflect the current service structure.
5. 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.
6. The summary draft HRA estimates are set out in **Appendix C1** with revised 30 year HRA Business Plan financial projections updated and reflecting the draft estimates shown at **Appendix C3**.

#### Considerations

7. A summary of the revenue estimates for the HRA is shown at **Appendix C1**. The total estimates have been analysed between direct costs and recharges (from staffing and overhead accounts), so that the direct costs can be identified for comparison. This is considered appropriate because the direct costs, unlike the recharges, are specifically within the control of the relevant cost centre manager.
8. A fundamental change in the way in which the HRA is financed took place from 2012-13, with the new "self-financing" regime resulting in the HRA taking on a debt at the end of March 2012 of £205 million. No repayment of the debt principal is planned for some years and the 2015-16 estimates include an amount for interest of £7.2 million.

Whilst this is a considerable sum it is far less than the amount that would have been payable to the government had the subsidy system remained.

9. The figure of £5.8 million for depreciation included in the 2015-16 draft estimates is based on the amount considered by the government to be needed to maintain the condition of the Council homes and incorporated in the self-financing calculation. It is acceptable to use this method of arriving at the minimum amount of depreciation chargeable to the HRA for the first five years of self-financing.
10. The government had intended that rent setting in the social housing sector should be brought onto a common system based on relative property values, local earnings levels and the number of bedrooms in individual properties. The guidance on this rent restructuring scheme provides a formula by which a target rent for each property is calculated and rents were expected to move to the target level over several years.
11. During 2014-15 the government decided to change the guidelines for 2015-16 and beyond. Although new lettings can be at the target rent, there is no longer any provision in the new guidance for moving the rents of existing tenants towards the target rent level.
12. In addition, rather than then using the Retail Price Index (RPI) figure plus 0.5% for the inflationary increase, Councils are now expected to use the Consumer Price Index (CPI) plus 1.0%. Unfortunately, whilst it was expected that the two inflationary figures would average out at more or less the same increase, the latest predictions from the government show an adverse difference of around 1% in future years. Both of these changes will have a significant cumulative detrimental impact on the rent income
13. The inflationary figure to be applied to this year's rent, in line with the government's guidance, is 2.2% (based on the September 2014 annual CPI increase of 1.2% plus 1%). The average increase is therefore 2.2% making the average rent £103.95 per week.
14. In the past the service charges for both sheltered housing tenants and leaseholders were subsidised by income from HRA rents and, as a consequence, needed to be approved by Members. This subsidy has now been phased out and because the full amount of the service charges are now due from sheltered housing residents, these are not considered in this report.
15. The estimates have been prepared on the assumption that most of the remaining HRA service charges are increased in 2015-16 by around 2% in line with the figure used in the Council's Medium Term Financial Strategy for 2015-16 inflation. The proposed charges are outlined in **Appendix C2**.
16. The financial benefits of the self-financing regime mean that in 2015-16 revenue funding of over £8 million can be used to support capital expenditure. £1 million of this is to be transferred from the investment/repayment reserve, built up since the start of the regime
17. As in previous years, the minimum level of working balance included in the estimates is £2 million and £1 million has also been set aside for the self-insurance fund reserve.

## **Implications**

18. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

### ***Financial***

19. The financial implications are contained in the body of the report.

### ***Legal***

20. There are no direct legal implications resulting from this report. The estimates show the financial effect of decisions that have already been made.

### ***Staffing***

21. There no additional staffing implications resulting from this report.

### ***Risk Management***

22. There do not appear to be any additional risk management implications resulting from this report.

### ***Equality and Diversity***

23. There are no direct equality and diversity implications resulting from this report. Equality and diversity issues will have been considered in the decisions which these estimates reflect.

### ***Climate Change***

24. There are no direct climate change implications resulting from this report. Climate change issues will have been considered in the decisions which these estimates reflect.

## **Consultation Responses (including from the Youth Council)**

25. 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 compilation of the estimate figures.
26. Tenant consultation has taken place on spending proposals. Tenants' main priority was that the Council continued to undertake works to address fuel poverty, such as new heating installations and external insulation cladding. Tenants also wanted the Council to continue the high level of disabled adaptation work. All of these are incorporated in the HRA estimates and Business Plan financial projections.

## **Effect on Strategic Aims**

27. To determine the Housing Revenue Account budget and rents and other housing charges to provide the resources for the Council to continue its HRA services to achieve its strategic aims.

## **Conclusions/Summary**

28. The draft HRA estimates include income from rents and charges at the levels proposed in this report. Variations to these levels may require reconsideration of the HRA budget.

29. In line with the government's recommendation it is proposed that rents for existing tenants are increased by an average of 2.2%.
30. **Appendix C2** sets out proposed variations in garage and other HRA charges for 2015-16.

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

Estimates files within the Finance, Policy and Performance team  
Draft Estimate Book

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