

HRA BUDGET 2014/15

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Responsible Officer Head of Finance, Head of Housing

Reason for Report: This report provides an estimate of the budget required for the operation of the Housing Revenue Account (HRA) in 2014/15. It includes proposals for members to consider regarding the setting of rent as well as other fees and charges.

RECOMMENDATION: That the PDG recommend to Cabinet the contents of this report and that rents be increased by an average of 4.7%.

Relationship to Corporate Plan: The financial resources of the Council directly impact on its ability to deliver its Corporate Plan objectives/pledges.

Financial Implications: A balanced and realistic budget must be set for 2014/15 in order that the HRA reserve is not threatened with unplanned expenditure. The 30 year business plan shows a need for much greater investment in the housing stock, meaning that the rent convergence target of 2015/16 will need to be met.

Legal Implications: It is a statutory requirement for the Council to set a balanced budget.

Risk Assessment: Service managers and Finance staff have assessed volatility in income and large contractor budgets. In addition, reserves will continue to be maintained at prudent levels.

1.0 Introduction

1.1 The Finance and Housing officers have now collated a draft budget for 2014/15 which proposes a balanced budget position, shown here in Appendix 1. It is important to note that uncertainty remains in two significant areas, as follows.

- **Rent increase** – we know that formula rent will increase by 3.7% and so can expect a rent increase of between 4% and 5%. This is in order to meet the convergence target of 2015/16. However, the Housing Benefit Limit Rent will not be published at this stage.
- **Welfare reform** – this is the most significant issue facing social housing across the country currently. There is huge uncertainty about what the financial and operational impact of this will be in both the short and long term. Assumptions will be made and estimates will be determined, but it will not be for some time that we have a degree of certainty over this area.

1.2 This means that we are able to predict with relative certainty the majority of the HRA budget areas, but that two significant uncertainties remain.

2.0 Housing Benefit Limit Rent (HBLR)

2.1 The HBLR for Mid Devon is set by central government and it is anticipated that we will be notified of this during January 2014. For budget setting purposes, it is assumed that the HBLR will be £78.35 for 2014/15.

2.2 This means that if our rent level averages more than £78.35, the amount of Housing Benefit we receive will be reduced. In previous years, the Council has avoided exceeding the HBLR for this reason.

2.3 However, since there is only one year until convergence, an average rent of £78.35 would leave Mid Devon requiring a larger increase for 2015/16 to reach convergence targets.

2.4 It seems sensible for Mid Devon to consider exceeding the HBLR for 2014/15 for the following reasons.

- It will aid Mid Devon's intention to maintain properties to the standards that tenants expect
- The financial effect on tenants will be minimal if at all
- Even though Housing benefit received will be reduced, income received overall will increase

Fees & Charges

2.5 The newly designed warden service was introduced during 2013/14. Since the charging structure is so recent, no changes are proposed at this time. However, a 10% increase is proposed for garage plot ground rents, as in the last two years. Also, garage rents are included on Appendix 4 for members' consideration (1.9% increase has been assumed at this stage).

3.0 Options

3.1 Appendix 2 shows three potential options for rent setting in 2014/15 as follows.

- An average increase of 4.5%
- An average increase of 4.7%
- An average increase of 5.0%

3.2 Increasing the rent by an average of 4.5% will bring Mid Devon up to the estimated level of the HBLR 2014/15. This means that no Housing Benefit will be lost, but that a higher increase will be required for 2015/16 to meet convergence targets.

3.3 Increasing the rent by an average of 4.7% will exceed the estimated level of the 2014/15 HBLR. It should generate an additional £14k for the Housing service, once a £14k loss of Housing benefit is taken into

account. This should mean a similar increase can be applied for 2015/16, thus smoothing out the increases paid by tenants each year.

- 3.4 Increasing the rent by an average of 5.0% will further exceed the estimated level of the 2014/15 HBLR. It should generate a further £17k for the Housing service, once a £39k reduction in Housing Benefit has been included. This should lead to a smaller increase for tenants in 2015/16.

4.0 Recommendation

- 4.1 Since it will mean a smoother trend over the next two years, it is recommended that rents be increased by an average of 4.7% (Scenario B). This will keep Mid Devon on target for convergence and mean that the vast majority of tenants will face increases of less than five per cent (in fact, only 384 will face increases of more than 4.6%).
- 4.2 This option should satisfy the needs of the organisation as well as those of the tenants and potential tenants.

5.0 Conclusion

- 5.1 The budget proposed in this report should enable the Housing service to operate on a day-to-day basis, performing both its core and value adding functions. In addition, it should enable provision to be made for significant works required in the future.
- 5.2 This report and associated recommendations will be seen by Cabinet at their meeting on 06/02/14 and by Full Council on 26/02/14. Any developments occurring in the areas covered in this report will be reported to this group as and when appropriate.

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Code	Best Value Unit	Outturn 2012/13	CY YTD Actuals	Budget 2013/14	Movement	Proposed Budget 2014/15
BHO01	Dwelling Rents	(11,438,614)	(6,419,240)	(11,829,720)	(636,840)	(12,466,560)
BHO02	Non Dwelling Rents	(523,013)	(300,331)	(522,430)	(2,630)	(525,060)
BHO03	Warden Income	(272,377)	(130,263)	(329,840)	760	(329,080)
BHO04	Leaseholders' Service Charges	(25,276)	0	(13,700)	200	(13,500)
BHO05	Contributions Towards Expenditure	(26,762)	(15,834)	(21,890)	(13,410)	(35,300)
BHO06	Community Alarms Income	(197,235)	(122,224)	(122,680)	(11,250)	(133,930)
BHO06B	Miscellaneous Income	(179,752)	(17,560)	(19,000)	0	(19,000)
BHO07	H.R.A. Investment Income	(27,552)	0	(21,950)	(19,050)	(41,000)
BHO09	Repairs And Maintenance	2,230,876	1,784,930	2,571,580	76,340	2,647,920
BHO10	Supervision & Management	1,315,766	766,983	1,446,640	353,360	1,800,000
BHO11	Special Services	399,900	246,713	482,800	(99,830)	382,970
BHO17	Bad Debt Provision Movement	7,624	0	25,000	0	25,000
BHO18	Share Of Corporate And Democratic	140,727	70,210	151,070	(6,770)	144,300
BHO20	Interest Payable	1,414,833	1,307,336	2,924,010	(112,010)	2,812,000
BHO23	Contribution to Reserves	2,112,272	0	132,380	13,200	145,580
	Solar PV income generated					(150,000)
	Contribution to the Renewable Energy Fund					150,000
	Contribution to Housing Maintenance Fund			1,895,480		2,353,770
	TOTAL (DIRECT COSTS)	(5,068,585)	(2,829,280)	(3,252,250)	(457,930)	(3,251,890)

	Recharges			1,130,890		1,130,890
	Capital charges			2,121,360		2,121,000
	TOTAL			0		0

Assumptions

Dwelling rent to increase by an average of 4.7%
 New properties to generate £140k in income
 Garage rents to increase from £10.80 to £11.00 per week
 95% occupancy in HRA retail units
 DCC to maintain Targetted Support grant of £264k (for Warden Services)
 Community alarm customer numbers to remain high
 HRA cash balances to remain high
 Planned Maintenance budget to include works previously charged to capital programme
 Planned Maintenance staffing budget to move from Repairs to Supervision & Management
 New Estates Manager post
 Reduced level of staffing in Supported Housing
 Debt repayments of £2,645k to PWLB and £167k to GF
 £2,354k contribution to the Housing Maintenance Fund to be made
 Recharges included at 2013/14 budget level

HRA Rent Scenarios 2014/15

Description	Average rent (52 week basis) £	Overall percentage increase	Annual rent budget £
A Increase rents up to the estimated level of the Housing Benefit Limit Rent (HBLR)	78.34	4.5%	12,312,840
B Higher rent increase to narrow the gap to Formula Rent (FR)	78.51	4.7%	12,326,554
C Still higher rent increase to further narrow the gap to Formula Rent (FR)	78.78	5.0%	12,343,128

Formula Rent	78.98	3.7%	
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MDDC rents currently lag behind 2013/14 Formula Rent by 1.7%.
 Since Formula Rent has increased by 3.7%, MDDC rent needs to increase by at least 3.7% just to maintain the gap that already exists.
 In order to meet convergence targets, MDDC will need to increase rents by more than the Formula Rent in 2014/15 and 2015/16.
 The difference on the budget between 4.5% and 5.0% being applied is £30k approx.

Assumptions

Six further properties sold during 2013/14.

Ten properties sold during 2014/15.

Average of 12 properties void at any one time.

In addition, there are 8 properties that are excluded from rent setting since they are not available for re-let.

Scenario A

Move each property's rent to within **60p** per week of Formula Rent, or maximum increase where the rent lags too far behind for this to be possible.

Increases would be spread as follows.

Increase	Number of properties affected	Gap to Formula Rent (average, per week)
< 2.5%	1	£0.00
2.6-3.9%	149	£0.58
4.0-4.4%	2,515	£0.58
4.5-4.9%	55	£0.58
5.0-5.4%	14	£0.58
5.5-5.9%	44	£0.58
6.0-6.4%	99	£2.14
6.5-6.9%	168	£2.07
7.0-7.4%	4	£12.49
TOTAL	3,049	

Maximum % increase

Properties affected	Formula Rent	Actual rent 2013/14	Current gap	Proposed increase	Proposed increase	Proposed rent 2014/15
1	£73.14	£54.62	£18.52	7.4%	£4.02	£58.64

Maximum £ increase

Properties affected	Formula Rent	Actual rent 2013/14	Current gap	Proposed increase	Proposed increase	Proposed rent 2014/15
4	£89.56	£83.46	£6.10	6.1%	£5.09	£88.54

This would give rise to an average increase of 4.5%, which will take our average rent to £78.34.

Scenario B

Move each property's rent to within **40p** per week of Formula Rent, or maximum increase where the rent lags too far behind for this to be possible.

Increases would be spread as follows.

Increase	Number of properties affected	Gap to Formula Rent (average, per week)
< 2.5%	1	£0.00
2.6-3.9%	149	£0.38
4.0-4.4%	2	£0.38
4.5-4.9%	2,551	£0.38
5.0-5.4%	24	£0.38
5.5-5.9%	42	£0.38
6.0-6.4%	93	£2.20
6.5-6.9%	183	£1.93
7.0-7.4%	4	£12.49
TOTAL	3,049	

Maximum % increase

Properties affected	Formula Rent	Actual rent 2013/14	Current gap	Proposed increase	Proposed increase	Proposed rent 2014/15
1	£73.14	£54.62	£18.52	7.4%	£4.02	£58.64

Maximum £ increase

Properties affected	Formula Rent	Actual rent 2013/14	Current gap	Proposed increase	Proposed increase	Proposed rent 2014/15
4	£89.56	£83.46	£6.10	6.1%	£5.09	£88.54

This would give rise to an average increase of 4.7%, which will take our average rent to £78.51.

Scenario C

Move each property's rent to within **10p** per week of Formula Rent, or maximum increase where the rent lags too far behind for this to be possible.

Increases would be spread as follows.

Increase	Number of properties affected	Gap to Formula Rent (average, per week)
< 2.5%	1	£0.00
2.6-3.9%	149	£0.10
4.0-4.4%	0	N/A
4.5-4.9%	888	£0.10
5.0-5.4%	1,665	£0.10
5.5-5.9%	24	£0.10
6.0-6.4%	135	£1.53
6.5-6.9%	183	£1.92
7.0-7.4%	4	£12.49
TOTAL	3,049	

Maximum % increase

Properties affected	Formula Rent	Actual rent 2013/14	Current gap	Proposed increase	Proposed increase	Proposed rent 2014/15
1	£73.14	£54.62	£18.52	7.4%	£4.02	£58.64

Maximum £ increase

Properties affected	Formula Rent	Actual rent 2013/14	Current gap	Proposed increase	Proposed increase	Proposed rent 2014/15
1	£89.56	£84.31	£5.25	6.1%	£5.12	£89.43

This would give rise to an average increase of 5.0%, which will take our average rent to £78.78.

HRA: Proposed Fees and Charges 2014/15

	<u>2014/15</u>	<u>Increase</u>	<u>Increase %</u>	<u>2013/14</u>
<u>Community Alarm Charges per week</u> (48 week basis)				
Sheltered & Bronze Scheme Alarm Charge	£2.50	£0.00	0.0%	£2.50
Lifeline Base Unit	£3.76	£0.00	0.0%	£3.76
Premiers – Lifeline plus telephone	£3.90	£0.00	0.0%	£3.90

Garage rents per week (48 week basis) <i>It should be noted that council tenants receive a discount of £2.00 per week on any garage rent.</i>	£11.00	£0.20	1.9%	£10.80
Garage ground rents (Annual charge)	£134.17	£12.20	10.0%	£121.97

<u>N.B.</u>				
September 2013 RPI: 3.2%				
MDDC Formula Rent on average	2014/15: £78.98	2013/14: £76.17		