Cabinet
4th February, 2014
Agenda Item No: 4

TITLE: **Housing Revenue Account – Budget 2014/15**
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1.0 SUMMARY

1.1 This report sets out financial arrangements for the Housing Revenue Account and asks Members to set the rent levels and service charges for 2014/15. The report also considers some of the issues emerging from 2015/16 onwards.

2.0 INTRODUCTION

2.1 This report seeks to explain the main issues surrounding the budgets for the Housing Revenue Account to enable Members to set rent levels for 2014/15. It also provides more detailed explanations of housing finance issues for Members who require an understanding of some of those technical issues.

2.2 The Housing Revenue Account (HRA) pulls together the total costs and income of the Council in its provision of the Housing Landlord Service. This account is ring-fenced so that it is totally separate from the other income and expenditure of the Council.

2.3 From 1 April 2012 the Localism Act replaced the former complicated HRA subsidy system with a new self-financing regime. The new regime allows the Council more freedom to determine its own budget, albeit some financial restrictions still apply, most notably around the use of Right To Buy (RTB) capital receipts and prudential borrowing limits.

2.4 The Council is now able to retain all of its revenue housing income streams whereby previously it was required to pay over a significant proportion of it as subsidy to Central Government. The Council is required to operate the HRA on a sustainable basis at no detriment to the General Fund (and vice versa). To facilitate this the Council, as with all housing authorities, was required to produce from the start of 2012/13 a thirty year financial Business Plan showing how the HRA could be run on a self-financing basis. This report updates the Business Plan and informs members of the key budgetary assumptions which underpin the financial projections from 2014/15 onwards.

2.5 The setting of rent levels is now an integral part of the financial planning decision making process. Officers are recommending an average increase of 8%.

2.6 Additionally, this report updates Members on the changes to RTB and welfare benefits and the potential implications of these new arrangements.

3.0 SUMMARY EXPLANATION OF THE HRA SELF FINANCING REGIME

3.1 As with many other local authorities the Council was required by central government on 28 March 2012 to effectively buy itself out of the former subsidy system by making a Self-Financing Determination Settlement Payment to the Department for Communities and Local Government (DCLG). For Adur the payment amounted to £51.185m and was funded by a loan from the Public Works Loan Board (PWLB), repayable in equal instalments over 30 years and at a rate of interest of 3.03%. The settlement amount was derived from the CLG's valuation of the Council's housing stock using a discounted cash flow model of the rental income and expenditure required to maintain the housing stock over the same period of 30 years.

3.2 From 1 April 2012, two significant elements of the HRA budget changed. Firstly, the requirement to make net subsidy payments to central government ceased, and secondly, HRA capital financing costs (formerly prescribed by statute, the Item 8 Debit) were replaced by an accounting cost apportionment methodology (the "two pool split") relating to past capital investment, plus the cost of new borrowing. These changes formed the most significant elements of the 30 year Business Plan, that was last updated for approval by the meeting of the Adur Cabinet on 5th February 2013. One year on, this report updates the estimates for all aspects of the HRA budget for 2014/15 onwards.

3.3 In order to regulate public sector borrowing, and coinciding with the introduction of self-financing, the DCLG imposed debt limits for housing authorities. The debt limit is recognised generally as a constraint on councils' ability to finance new affordable housing delivered via the HRA, and for Adur Council the limit is set at £68.912m. The limit comprises £51.185m for the debt incurred to pay the Settlement Payment to CLG, with the balance of £17.727m relating to an estimation of the Council's underlying need to borrow (as measured by the Housing Capital Finance Requirement or HCFR) at 1 April 2012.

3.4 As actual HRA debt was almost at the limit imposed at the start of 2012/13 financial year, the ability to take on new debt is reliant on repaying existing debt and creating some "headroom" below the limit. This is partly facilitated by the amount borrowed to fund the Debt Settlement Payment, as the repayments of principal are in equal instalments (EIP) over the loan term which results in additional headroom of £1.706m per annum being created. Additional headroom is also obtained by the repayment of other historic (i.e. pre 1 April 2012) HRA debt when it falls due. The expected headroom for new HRA borrowing at 1 April 2014 is approximately £3.9m.

3.5 The financing costs relating to new capital investment funded from borrowing consists of interest chargeable on the principal amounts outstanding, plus a provision (The Minimum Revenue Provision, or MRP) for debt repayments. The MRP is set aside to ensure that sufficient resources are provided to repay the principal amounts borrowed over the life of the investments achieved. The MRP is a voluntary and prudent provision in keeping with the Council's Treasury Management Strategy (Appendix 6). Both interest costs and MRP are charged into the HRA Comprehensive Income and Expenditure Statement so that they are ultimately financed by rental and other income. The budgeted estimates for financing costs in 2014/15 are disclosed in Para 7.2.

3.0 SUMMARY EXPLANATION OF THE HRA SELF FINANCING REGIME

3.6 Despite taking on a considerable amount of additional debt, the self-financing regime gives the Council the opportunity to address some long running concerns about the level of resources for the on-going maintenance of property and to finance a larger proportion of the capital programme from revenue which will ultimately save the Housing Revenue Account interest costs. These issues are discussed in more detail within the body of the report.

4.0 RISKS AND CHALLENGES REGARDING RIGHT TO BUY AND REFORM OF HOUSING BENEFITS

4.1 Council housing stock numbers are as follows:

	2012/13	**2013/14**	**2014/15 (Estimate)**
Stock at 1st April	2,652	2,645	2,639
Plus: Additions - Note(1)	5	5	5
Less: Right to Buy sales	(12)	(11)	(20)
Less: Disposals	-	-	-
Stock at 31st March	**2,645**	**2,639**	**2,624**

Note (1:) *These additions are the repurchase of previously owned council dwellings, and over time is intended to increase the housing stock to offset the impact of dwellings sold under Right To Buy.*

4.2 In 2012/13, the first year of self-financing, 12 properties were sold compared to just 6 the year before. The signs are that despite the economic downturn and government's austerity measures of recent years, interest from tenants in the possible take up of RTB sales is increasing. This is possibly a reflection of the availability of increased purchase price discounts, and the impact of the Government's Help to Buy Scheme - which is being extended in 2014 to buyers of second hand properties. The propensity for sales to further increase is therefore real, although the consequential loss of rental income from these sales may in future be partly mitigated by the aim to purchase five flats per annum, as well as introduce a new build programme.

4.3 A depleting housing stock base means that the fixed costs per property increase and rental income available to fund these costs reduces. The level of capital receipts retained by the Council to replace the reducing housing stock base is limited due to the increase in the level of discount offered and the DCLG restrictions placed under the new RTB arrangements. Underpinning this constraint were the following principles contained in the March 2012 CLG publication "Reinvigorating Right To Buy and One For One Replacement – Information for Local Authorities"

4.0 RISKS AND CHALLENGES REGARDING RIGHT TO BUY AND REFORM OF HOUSING BENEFITS

- To increase the cap on Right to Buy discounts to 75% (Cash limit of £75,000) from 1 April 2012 to enable more people to achieve home ownership.

- To ensure that the receipts on every additional home sold under RTB is used to fund one to one replacement nationally (i.e. Councils are not required to demonstrate one for one replacement locally).

4.4 The RTB scheme applies to secure tenants and for 2013/14 the following discount levels for houses and flats applied:

- For houses, a 35% discount for tenants of 5 years. For every extra year the discount increases by 1%, up to a maximum of 60% – or £75,000 across England and £100,000 in London boroughs (whichever is lower).

- For flats there is a 50% discount for tenants of 5 years. For every extra year the discount increases by 2%, up to a maximum of 70% – or £75,000 across England and £100,000 in London boroughs (whichever is lower).

4.5 On 3 January, 2014 proposals were announced to raise the level of discounts further:

"In a deal that is currently being negotiated between the coalition partners, the chancellor is poised to announce he will raise English council borrowing limits in return for a further increase in right to buy discounts. It is understood the caps will not be removed entirely, but that there would be flexibility to increase borrowing headroom in areas of particularly acute housing need. To borrow more, it is thought councils will have to agree to meet specific conditions, such as committing to build new homes or improve estates" (source: Inside Housing Today)

4.7 Under these proposals the RTB maximum discounts of £75,000 for council houses outside of London would be increased by CPI inflation, making the discount nearer £77,000 (at Nov.2013 prices). The cash limit will still be capped, but the cap itself will also be increased from 60% to 70% of market value.

4.8 As a condition of being able to retain capital receipts arising from RTB sales, the Council entered into an agreement with the Secretary of State in 2012 whereby:

(i) the retention of receipts only applies to the RTB sales above the number assumed each year in the HRA self-financing settlement. For Adur the original 75% central pooling arrangement continued for the first 4 properties sold post 1 April 2012, and thereafter is calculated in accordance with a CLG formula

(ii) the Council use the receipts for the provision of "affordable" rented homes (i.e. those with rents up to 80% of market rents), albeit that in practice the Council may exercise discretion to set rent below this figure, and maybe as low as 65% in keeping with some housing associations;

(iii) the retained share of receipts constitute no more than 30% of total investment in such homes (net of any contribution from another public body)

4.0 RISKS AND CHALLENGES REGARDING RIGHT TO BUY AND REFORM OF HOUSING BENEFITS

(iv) the retained receipts are used within 3 years to provide new affordable homes, otherwise they will be required to be paid into the CLG pool plus accrued compound interest of 4%.

4.9 The RTB regulations allow the amount of RTB receipts to be pooled to be reduced by certain deductible items:-

- transactions costs
- any abortive costs of RTB applications
- an adjustment to take account of the change in the assumptions of RTB sales made in the DCLG Self-Financing Settlement valuation business model calculation

4.10 The rationale of the Government's framework is that it wants replacement homes provided for as quickly as possible, citing evidence from the 2011-15 Affordable Homes Programme that it should be possible to fund new homes let at affordable rent with no more than 30% of the cost of new homes coming from RTB receipts.

4.11 Although the Government have affirmed its policy of one for one replacement of every home sold under the RTB scheme, at December 2013 only been 1,662 replacements had been started for 10,954 properties sold – a ratio of 1 in 7.

4.12 The Welfare Reform Act received Royal Assent in March 2012 and introduced the most significant changes in the welfare system in over 60 years. The reforms reflect the Government's aim to reduce the cost of welfare benefits generally, and are being trialled in a number of areas, as the planned national implementation for new claimants and those with a change of circumstances from October 2013 has been delayed. Early experience suggests that the reforms will increase the financial pressures on some of the most vulnerable people of society, due to the introduction of caps on the amount of weekly benefit, including further reductions for under occupation, generally referred to as the 'bedroom tax'.

4.13 Also, for working age people, a Universal Credit will replace a number of former out of work benefits, including housing benefit, income support, job seekers allowance, income related employment and support allowance, child benefit, child tax credit, and carer's allowance. Universal Credits will be paid directly to claimants rather than the current arrangement of direct payment to the Local Authority as landlord. Hence the decision that benefit is to be spent on rent, as opposed to other expenditure, is in the hands of the individual recipient.

4.0 RISKS AND CHALLENGES REGARDING RIGHT TO BUY AND REFORM OF HOUSING BENEFITS

4.14 Approximately 70% of Adur tenants (1,726 out of a total of 2,621 at 31 December 2013) are in receipt of benefits and it is likely that there will be pressures on rents and debt collection in future. In particular, the 'bedroom tax' is anticipated to affect 212 tenants (8% of all tenants) who will lose 14% of their housing benefit for the first spare bedroom, and 25% if they have two or more bedrooms unoccupied. Tenants who are no longer of working age (i.e. 62 and over) are exempt from these reductions. Initial enquiries with the tenants affected have revealed disparate reasons why some would not wish to move from their present accommodation. For example, some tenants have children of the opposite sex and would require larger accommodation in future, while others have specific disabled adaptations. However, a small minority of tenants appear to have no reason for remaining in under occupied accommodation, citing they were allocated a larger property for children who are no longer resident. In any event, the impact may adversely affect the projections for collections of arrears.

5.0 THE HOUSING REVENUE ACCOUNT FOR 2014/15

5.1 The projected expenditure and income for the HRA in 2014/15 is as follows:-

	Estimate 2014/15
	£'000
Expenditure	12,828,470
Income	(13,394,530)
Net (Surplus)/Deficit for the year	(566,060)
Proposed contribution to /(from) reserves	566,060
Overall position for the year	-
Balance brought forward 1st April, 2014	(2,108,313)
Balance carried forward 31st March, 2015	**(2,108,313)**

More detailed estimates for the Housing Revenue Account for 2013/14 and 2014/15 are shown in Appendix 1.

5.2 These projections take into account the budget from 2013/14, which has been updated for inflation, capital financing costs in respect of debt, and proposed increased rent income together with the other proposed adjustments which are described more fully below.

5.3 The estimated outturn for 2014/15 shows a break-even position allowing for a contribution of £566,060 to a specific reserve introduced from 2012/13 for new development and refurbishment of Adur Homes' dwellings (see 14.4).

6.0 RENT SETTING FOR 2014/15

6.1 In 2002/03, as part of its Social Rent Reforms in the Local Authority sector, the Government introduced a mechanism to standardise the process for calculating rents.

6.2 The rent restructuring convergence policy objectives were that:

(a) social rents should remain affordable and well below those in the private sector

(b) social rents should be fairer and less confusing for tenants

(c) there should be a close link between rents and the qualities which tenants value in properties

(d) differences between the rents set by local authorities and Registered Social Landlords (RSL) should be removed.

Looking Back

6.3 From 2000/01 to 2012/13 rents at Adur District Council properties have been increased in line with Government guidelines for rent convergence, moving rents gradually towards target rents (known by CLG as formula rents). It was envisaged that rents should converge with those charged by housing associations by 2015-16, followed by rent rises at Retail Price Index plus 0.5% per year after this. Adur Homes Rents are currently significantly below 2013/14 target rents (equal to approximately 91% of formula rents on average). To meet the rent convergence assumptions the average rent increase would have been 5.2% in 2013/14, but Adur Council took the decision to charge an average rent increase of 3.1% (equal to RPI + ½%). The Adur Homes rents charged for the last three years are as follows:

Rents charged at Adur District Council 2011/12 to 2013/14								
Adur DC	**Average Rent**			**Increase on Previous Year**		**RPI inc. from Previous Year**		**Formula Rent**
	2011/12	**2012/13**	**2013/14**	**2012/13**	**2013/14**	**2012/13**	**2013/14**	**2013/14**
Bedsits	£57.89	£61.98	£63.15	7.0%	1.9%			£67.79
1 bed	£67.96	£72.92	£74.81	7.3%	2.6%			£81.34
2 bed	£76.87	£82.79	£85.31	7.9%	3.0%			£93.50
3 bed	£86.03	£92.95	£96.37	7.8%	3.7%			£106.94
4 bed	£91.24	£98.02	£102.23	8.1%	4.3%			£115.92
5 bed	£91.97	£99.58	£104.66	8.3%	5.1%			£127.64
All	**£76.17**	**£82.01**	**£84.56**	**7.7%**	**3.1%**	**5.6%**	**2.6%**	**£92.86**

6.4 Comparative data acquired for other Sussex Councils relating to 2011/12 indicate that Adur falls just below the median in ranking for average rents charged:

6.0 RENT SETTING FOR 2014/15

Looking Back

Social Housing Sector Rents Charged in Sussex 2011-12 Source: Valuation Office Agency					
Area	**No. of Rents**	**Average**	**Lower Quartile**	**Upper Quartile**	**Difference vs Adur (average)**
Horsham	1,036	£973	£695	£1,095	30%
Brighton & Hove UA	3,145	£959	£650	£1,200	28%
Mid Sussex	928	£917	£675	£995	23%
Wealden	553	£915	£625	£975	22%
Lewes	810	£864	£650	£925	16%
Chichester	1,209	£848	£625	£935	14%
Crawley	660	£828	£650	£950	11%
West Sussex ave.	7,398	£791	£575	£895	6%
Adur	**344**	**£747**	**£585**	**£825**	**0%**
Arun	2,009	£684	£520	£795	-8%
East Sussex ave.	5,040	£680	£472	£795	-9%
Rother	774	£674	£500	£775	-10%
Worthing	1,212	£651	£525	£750	-13%
Eastbourne	1,363	£645	£450	£750	-14%
Hastings	1,540	£534	£400	£625	-29%

6.5 A further comparison of Adur Homes rents for 2012/13 shows that both the average rent and formula rents (i.e. the level of rent expected to be achieved through convergence) across all property types is below the equivalent rent applied by our neighbouring Registered Social Landlord "Worthing Homes Ltd".

Data for 2012/13 Adur District Council and Worthing Homes (Registered Social Landlord)									
	Av rent (WH all stock)	**Av rent (WH in Adur)**	**Av rent (ADC)**	**Av FR (WH all stock)**	**Av FR (WH in Adur)**	**Av FR (ADC)**	**AR:FR (WH all stock)**	**AR:FR (WH in Adur)**	**AR:FR (ADC)**
Bedsit	£66.72		£61.98	£66.89		£65.68	99.7%		94.4%
1 bed	£78.74	£77.81	£72.92	£78.77	£82.49	£77.94	100.0%	94.3%	93.6%
2 bed	£91.99	£97.20	£82.79	£93.44	£96.78	£89.57	98.4%	100.4%	92.4%
3 bed	£102.69	£104.17	£92.95	£106.63	£108.81	£102.46	96.3%	95.7%	90.7%
4 bed	£112.33		£98.02	£124.54		£111.62	90.2%		87.8%
5 bed	£109.11		£99.58	£134.86		£122.31	80.9%		81.4%
6+beds	£133.81			£132.85			100.7%		
All	**£91.20**	**£94.69**	**£82.01**	**£93.24**	**£97.65**	**£89.04**	**97.8%**	**97.0%**	**92.1%**

6.6 Adur Homes rents compared with Open Market rents and other benchmarks are as follows:

Compared with Other Types of Rent in Adur Adur Homes rents are considerably lower than other rented accommodation in Adur					
	Open Market Rent	**Affordable Rent (80%**	**Adur Homes Social Rent**	**Formula Rent (Social Rent)**	**Local Housing Allowance**
Lancing/ Sompting	£173 £750/mth	£138	£86.71	£94.67	£150
Shoreham/ Southwick	£218 £944/mth	£174	£84.46	£92.79	£188.68

6.0 RENT SETTING FOR 2014/15

Looking Back

6.7 The Tables in Para 6.3-6.6 above are reproduced in Appendix 4 of this report with further explanations of the findings. The evidence would suggest that although the average Adur Homes rent is not the lowest in Sussex it does lag behind the rents charged by eight of the other fourteen councils. Additionally, the average rent for Adur Homes is below the formula rent that would have applied had rent convergence been achieved, and provides secure tenancies in the District at the lowest cost comparable to other providers. For example, the average Adur rent in the Shoreham and Southwick areas is 61% below open market rents, and 13% below Worthing Homes rents charged in the Adur area as a whole.

Looking Forward

6.8 It is the Government's expectation that Councils will have achieved convergence by 2015/16 as the CLG modified its stance on rent setting policy in July 2013 by announcing in a letter to housing authorities ;

"Having considered the issue carefully, we are minded not to extend rent convergence beyond 2014/15…..' We expect most landlords to have achieved rent convergence by 2015. By that point, rent convergence policy will have been in place for almost 15 years - this is a significant period of time for landlords to make full use of the rent flexibilities the government has provided, and most have done so."

6.9 There followed in October 2013, a CLG consultation paper "Guidance on Rents for Social Housing", in which it was proposed:

- moving from annual increases in weekly rents of Retail Price Index (RPI) + 0.5 percentage points (+ up to £2 for social rents), to increases of Consumer Price Index (CPI) + 1 percentage point;
- removing (from 1 April 2015) the flexibility available to landlords to increase weekly social rents each year by an additional £2, above the increase in formula rent, where the rent is below the rent flexibility level and rent cap;
- making clear that rent policy does not apply where a social tenant household has an income of at least £60,000 a year.

6.10 Consequently, in 2014/15 there is a one-off opportunity before the changes are introduced in 2015/16 to increase rents to a level that is more in line with the rent that would have applied had convergence been attained, and which will help ensure a sustainable Business Plan in future years. Each 1% rental increase above cost inflation (approx. 2.5%) will represent an additional £116,000 that can be set aside to meet Adur Homes' objectives and priorities.

This year's proposed average dwelling rent level

6.11 Therefore, the average rental increase recommended for 2014/15 is 8%, raising the average council dwelling rent by £6.76 to £91.33 per week (average rent currently £84.57 per week). This increase still results in the average rent being below the formula rent that would have applied had convergence occurred, and importantly will provide additional resources to enable necessary investment to maintain the housing stock and improve the service provided to tenants. Appendix 5 details the growth items identified (total £595k) .

6.0 RENT SETTING FOR 2014/15

This year's proposed average dwelling rent level

6.12 The proposed average increase is estimated at being below the Rent Rebate Subsidy Limitation (RRSL) limit. The RRSL limit is the maximum average rent that may be charged before housing benefit payments need to be subsidised by the HRA. The Department of Works and Pensions has not yet published the RRSL limit rents.

6.13 It is intended to apply a larger increase to properties where the rent is further away from the target rent and to apply a smaller increase to properties where the rent is closer to the target rent. The level of increase for any property will be capped at 15%.

6.14 It is also proposed to charge the target rent on new lettings from April 2014/15. This policy will not be applied to transfers, mutual exchanges or to tenants that are downsizing.

Garage Rents

6.15 Garage rents were increased by 2% in 2013/14 to £8.67 per week (plus VAT for non-Council tenants). It is proposed that the garage rents be again increased in 2014/15 by 2% to £8.84. These proposals will generate an extra £6,780 in income.

7.0 DEBT FINANCING COSTS

7.1 The debt financing costs chargeable to HRA in 2014/15 relate to interest payments and MRP relating to the following :

i) historic debt of £17.491m in existence at 1 April 2012 (less any subsequent repayments) attributable to the HRA via the "two-pool split" of the Council's total debt at that date.

ii) debt incurred on 28 March 2012 to pay the HRA self-financing settlement payment of £51.185m, for which there will be a balance of £47.8m outstanding at 31 March 2014.

iii) new borrowing anticipated in 2014/15 for new capital expenditure.

7.2 The budgeted costs are:

2014/15 Budget	Interest £000	MRP £000	Total
Historic Debt	990	437	1,427
Settlement Debt	1,435	1,280	2,715
2014/15 Borrowing	407	283	690
Total Budget	**2,832**	**2,000**	**4,832**

7.0 DEBT FINANCING COSTS

7.3 The combined budget of £4.832m is the same value as set for 2013/14 and reflects no significant changes. While interest costs on debt are a direct charge from the lender, MRP is applied as a contribution to the Major Repairs Reserve.

8.0 REPAIRS AND MAINTENANCE

8.1 The condition of housing stock is maintained and improved in two ways:-

- Routine revenue repairs of a day-to-day nature and by planned maintenance such as repainting or boiler servicing.

- Capital investment programme of refurbishment and improvement on a larger scale.

8.2 In recent years, the budget for repairs has been suppressed due to concerns about the overall financial position of the HRA, which had been in deficit for some years. When setting the 2012/13 budget The Executive Head (Adur Homes) identified that the 2011/12 budget was insufficient for the emerging needs and should be increased by £300,000 per year (representing a 5% increase). With inflation, the budget in 2014/15 has been increased by 325k over the 2013/14 current budget.

8.3 Housing Capital Investment Programme

8.3.1 The capital investment programme typically comprises refurbishment and improvement on a larger scale for schemes such as new central heating and double-glazing.

8.3.2 Future investment in the council housing stock is funded from:-

(i) revenue contributions to capital expenditure;

(ii) the Major Repairs Reserve, which will increase each year by a contribution from the HRA equivalent to the depreciation charge on the use of fixed assets. This contribution is ring-fenced for repayment of debt or for direct financing of capital and maintenance expenditure; and

(iii) prudential borrowing (subject to affordability), but must be contained within the Debt Ceiling of £68.912m set by Central Government (Para 3.3 refers).

8.4 With regard to the Council's capacity for new borrowing in relation to the debt ceiling, the Chancellor announced in the 2013 Autumn statement that:

8.0 REPAIRS AND MAINTENANCE

"The government will increase the funding available for new affordable homes, by increasing local authority Housing Revenue Account borrowing limits by £150 million in 2015-16 and £150 million in 2016-17, allocated on a competitive basis, and from the sale of vacant high-value social housing. This funding will support around 10,000 new affordable homes and will form part of the Local Growth Fund, available to local authorities who have a proposal agreed by their Local Enterprise Partnership (LEP). This will strengthen the role of the Local Growth Fund in transforming local economies, by providing much-needed housing to support growth. The government will prioritise bids on the basis of their value for money, and would expect partnership working with Housing Associations or through Joint Ventures. The government also expects bids to contribute public sector land, and disposal of high-value vacant stock to drive competitive bids. To support this, the government will ensure all councils are transparent in the value and size of their housing assets"

8.5 Thus, the increase in the HRA borrowing limit will be distributed through the Local Growth Fund on a competitive basis for LAs who have a proposal agreed by their LEP, rather than a formulaic increase across LAs with a HRA. There is no further detail than this at this time, and therefore the extent to which the Council may benefit from the proposals from 2015/16 onwards remains to be assessed.

8.6 Adur Housing Investment Programme

8.6.1 The capital programme for 2014/15 was approved at £2.746m by the Joint Strategic Committee at its meeting of 3 December, 2013 at which it was reported that :

"The estimated resources available to fund the 2014/15 HRA renovation programme of £2,746,000 are sufficient to fund all the proposed schemes. Under the new self financing regime, the HRA is in a much more sustainable position.The first priority is the continued maintenance of decent homes standards for the benefit of existing tenants.The decent homes standard requirement is that homes:-

a) meet the current statutory minimum standard for housing;
b) are in a reasonable state of repair;
c) have reasonably modern facilities and services;
d) provide a reasonable degree of thermal comfort."

8.6.2 A further report detailing specific capital works for in respect of the decent homes programme (and seeking amendment to the Capital Investment Programme overall for 2014/15) is to be presented to the JSC meeting of 6 February, 2014. The amended programme also includes consideration of the impact of slippage from the 2013/14 financial year.

8.6.3 Additionally, the meeting of the JSC on 1st October 2013 received a report on proposals for Adur Homes to carry out a study to investigate the feasibility of delivering a new build housing project comprising home ownership and social housing tenure. To cover the costs of the feasibility work it was agreed to set aside £50,000 from the Adur Homes New Acquisitions and Development Fund. It was further agreed that any proposals would be developed in consultation with the Cabinet Member for Customer Services, but due to the timescales involved, there is no financial impact incorporated into the 2014/15 HRA budget.

9.0 REVENUE CONTRIBUTION TO CAPITAL EXPENDITURE

9.1 A revenue contribution to capital expenditure has been a core resource in financing the Housing capital programme in previous years. With the changes brought about by the self-financing regime, the contribution was increased in 2012/13 to £1.877m, and to £1.950m in 2013/14. No change is proposed for 2014/15 as there is sufficient funds already within the Major Repairs Reserve (Para 14.5 refers) to supplement the funding of any variations to capital expenditure.The revenue contributions in both years reflect a long-term strategy to fund a significant proportion of the proposed capital programme from revenue, thereby reducing the annual revenue cost of borrowing for the capital investment to the Housing Revenue Account. The annual cost implications for each £1m borrowed comprises:

	£
Interest Charges based on 4% interest rate	40,000
Annual provision for the repayment of debt – repaid over 40 years	25,000
Total Revenue Cost Implications	**65,000**

For each £1m borrowed the cost over a 40 year term (the estimated life of a council dwelling over which MRP is applied) would amount to £2.60m in total, some £1.6m more than the cost of a similar investment funded entirely by revenue contributions.

10.0 MANAGEMENT COSTS

10.1 The budget for General Management costs has decreased by £234k (8.7%) in 2014/15 compared to the current budget, and reflects general efficiences, changes in central allocations, and expected savings from management restructing.

10.2 Opportunities for savings efficiencies for Adur Homes general management are reviewed each year as part of the budget process and the changes reflects officers' view of the opportunities and constraints within the current budgetary cycle.

11.0 SUPPORTED HOUSING

11.1 The large reduction in Supported Housing funding for the Council's sheltered housing service, as a result of reductions in national government funding and West Sussex County Council's (WSCC'S) decision to remove the ring-fence and assimilate the money into the Area Based Grant administered through Local Area Agreements, led to a new way of funding and delivering the service.

11.2 In line with other providers in West Sussex, Adur Homes decided to split the costs of support and enhanced housing management. This enhanced housing management, which is housing management tasks carried out in sheltered accommodation above and beyond management of general needs housing, is now funded through a new service charge which is eligible for Housing Benefit (HB).

11.0 SUPPORTED HOUSING

11.3 There is an expectation by WSCC that some of the funding is used to develop a new floating support service to local people in need of some support who do not live in sheltered housing and this service is currently being launched.

11.4 The new contract with WSCC came into effect from 1 April 2013 and will last for 3 years, with an option to extend for a further 2 years. As a reflection of the proposals the 2014/15 budget has been reduced by £147k from the current year estimate.

12.0 SERVICE CHARGES – CONTRACT PRICE INCREASES

12.1 As well as core rent charges, some tenancies are also subject to service charges as they receive services which are specific to their circumstances. These charges are made in line with actual costs. Contracts in respect of services to tenants, such as door entry maintenance and communal way cleaning, are normally subject to an annual Retail Price Index (RPI) or equivalent increase. This increase is passed on to tenants receiving those services by way of an equivalent increase in their weekly service charge. Some costs have to be retendered and not all increases are applied at the beginning of a financial year. This means that such increases cannot be incorporated into the annual rent increase process and additional costs are incurred in notifying tenants separately and amending Housing Benefit entitlements when such an increase arises.

12.2 Contract review dates are staggered throughout the year and there may be instances when a small increase needs to be applied to such a small group of tenants that it is not cost effective to apply the charge immediately. Members are therefore requested to delegate to the Acting Head of Adur Homes and the Executive Head of Financial Services in consultation with the Cabinet Member, Improved Customer Services, authority to defer such an increase to a more cost-effective date.

13.0 REALLOCATIONS OF SALARIES AND CENTRAL COSTS

13.1 All salaries, staff expenses, administration buildings and central support services are collated centrally within the Adur and Worthing Joint services and the Council's general fund budget. It is then re-allocated to services to show the full-cost of service provision. A more detailed explanation of this is included in the Budget Book for Adur & Worthing Councils. The Housing Revenue Account has benefited in recent years from savings achieved from joint shared support services. Last year the underspend on revenue outturn for support charges was £106,000. This year estimated savings in the Joint Strategic Committee are offset by inflation eroding any potential gains for the HRA.

13.2 Each year there will be some swings in allocations for the Housing Revenue Account from central support services. There will also be movement in allocation for Adur Homes staff charging to HRA capital projects. These costs are reviewed each year as part of the budget setting process.

14.0 LEVEL OF RESERVE BALANCES

14.1 HRA general reserve balances are forecast to be £2.108m at 1st April 2014 and 17% of total expenditure. This is over the target level explained in Para 14.2 below, but reflective of the emphasis placed in securing resources to underpin revenue operations and capital expenditure in future years.

14.2 In the General Fund a target level of balances of between 6-10% of net expenditure has been set. The general principles behind retaining a minimum target level of balances are similar for both the General Fund and HRA in that it should be sufficient to withstand foreseeable 'worst case' scenarios but not so large as to constitute unnecessary retention of tenants monies.

14.3 Therefore, in principle, given that the large majority of the costs and incomes of the HRA are relatively stable (or effectively fixed at the start of each year) it should be possible to operate on a reserve balance within the 6-10% range. However, the self-financing regime is still relatively new so that future risks surrounding revenues and costs (including the impact of the impending welfare reforms and RTB regime) are uncertain. Also, given the uncertainty of costs and timings relating to the Council's new build proposals (Para 8.6.3) a cautious approach in the early years is justified in striving to provide adequate reserves to build capacity for the future as part of a longer term strategy.

14.4 The balanced budget for 2014/15 includes a proposed contribution of £566,060 to the HRA New Development and Acquisition' Reserve that Members approved be established in 2012/13 for new development and acquisition of new Adur Homes' dwellings. Any under-spend or surplus will be placed in this reserve over the next few years specifically to create capacity to take forward initiatives to increase the supply of affordable housing. The contribution in 2014/15 is part of the longer term strategy for delivering council housing in future.

14.5 Until 2011/12 the Major Repairs Reserve (MRR) has been fully utilised to fund in-year capital expenditure so that there has been no carry forward balances retained on the Balance Sheet. However, at 31 March 2013, a balance of £2.197m was retained on the MRR to be carried forward and used for funding the capital programme. This reflects the position that fluctuations may arise in expenditure each year depending on slippage within the capital programme, and the amounts of voluntary set aside for MRP for the repayment of debt. Altogether, the 2014/15 capital budget includes provision for £2.861m to be utilised for financing HRA capital expenditure, comprising the carried forward balances and in-year contributions.

14.6 Although a balanced budget has been prepared, any underspends arising at the final revenue outturn for 2014/15 will be put forward for consideration by Members to decide how this may be set aside to the most appropriate Adur Homes reserve taking into account the demands of the service at that time. In keeping with previous years, it is proposed that any overspends at final revenue outturn will be drawn from the HRA General Reserve.

15.0 IMPACT ON FUTURE YEARS

15.1 Attached at appendix 4 is the 30-year financial forecast. The focus for the 2014/15 budget has been to ensure that the HRA remains sustainable in the longer term. As with 2013/14, the budget for 2014/15 allows for a high level of investment in the maintenance of properties than has been afforded prior to the self-financing regime. The first priority for the new freedoms has to be the continued maintenance of the decent homes standards for the benefit of our existing tenants.

15.2 The financial plan assumes that rent increases from 2015/16 are at the level proposed by the Governments proposals described in para 6.9 (i.e. CPI plus 1%).

15.3 The financial strategy within the 30-year forecast also includes the MRP allowance for the repayment of the debt, such that headroom below the Debit Limit is created for new borrowing and is affordable. Over the next five years, the Council will be able to borrow to finance new initiatives as follows:

	2013/14 Approved £m	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Opening CFR *	66.078	66.959	65.562	63.993	63.283
New borrowing	-	0.320	0.148	1.007	1.087
MRP	(1.717)	(1.717)	(1.717)	(1.717)	(1.717)
Closing CFR	**64.361**	**65.562**	**63.993**	**63.283**	**62.653**
Debt Ceiling	**(68.912)**	**(68.912)**	**(68.912)**	**(68.912)**	**(68.912)**
Headroom for additional borrowing if supported by tenants	**(4.511)**	**(3.350)**	**(4.919)**	**(5.629)**	**(6.259)**

* *CFR is the underlying need to borrow and in the table above assumes all debt is drawn down in full in the year as planned in the capital programme. The Treasury Management Strategy contained in Appendix 5 includes a comparison of the CFR and the Debt Ceiling derived from projecting the current portfolio of borrowing (i.e. assuming no new borrowing).*

15.4 In view of the available headroom for new borrowing the Council could consider support for either a higher level of investment in our current housing stock or to increase the number of affordable homes available through the following:

1. Conversion of HRA shops to dwellings in difficult to let locations

2. Repurchase of previously owned Council dwellings (particularly leasehold flats)

15.0 IMPACT ON FUTURE YEARS

3. Purchase of empty properties from the private sector which are dilapidated or in need or repairs.

4. Building new homes

All of these options need to be explored in detail to ensure that they are financially viable. Indeed, the implications of changes to the Right to Buy government policies will need to be carefully considered prior to embarking on any project.

15.5 To bring all of these considerations together, it is proposed to refresh the Adur Homes business plan periodically, and incorporate into the plan an assessment of the future of the housing stock – including the outcome of the the feasibility investigation into the new build proposals . This will also include an update to the asset management plan which will validate the assumptions in the 30-year forecast about the capital programme and maintenance provision.

16.0 SUMMARY AND RENTAL OPTIONS

16.1 Increasing rents by an average of 8%, with other changes to the budget leaves the HRA in a strong financial position going forward, albeit that a number of risks and uncertainties alluded to in this report have yet to take effect or be quantified.

16.2 The national DCLG business plan for 'self-financing' was based on the assumption that guideline and formula rents will converge by 2015-16. The Government have now dismissed convergence in preference for new proposals effective from 2015 which will see rents regulated by increases of CPI inflation plus 1%. Consequently there is a one-off opportunity to increase rents towards the formula rent. Therefore, it is recommended that this is taken in 2014/15 (before the regulations take effect) to uplift dwelling rentals to a level more akin to that which would have applied had convergence taken place – given that Adur has traditionally lagged behind.

16.3 The Council's discretion on the level of rents it decides to set in future will therefore be constrained and therefore the proposed 2014/15 budget reflects the need to provide resources to invest and maintain the housing stock, as well as ensure a sustainable business plan for future years that is truly "self-financing".

16.4 Clearly, there remains the option of setting a lower rent increase, but this would result in a deficit which would have to be funded from the reserves, or deferring the growth proposals outlined in Appendix 5, or making alternative savings elsewhere in services.

16.5 Discussions have already taken place with the Adur Consultative Forum over the 2014/15 budget proposals, and it is supportive of the recommendations. ACF recognises the need to invest in the future for Adur homes. Forum members will also be invited to attend the Cabinet meeting to relay their views on the budgetary proposals.

17.0 LEGAL IMPLICATIONS

17.1 There are no legal implications arising from the proposed budget other than those relating to :

i) the use of capital receipts under Right To Buy regulations (Para 4.4 – 4.90), and emanating from the Local Authorities (Capital Financing and Accounting)(England) Amendment Regulations (SI 2012/711 & 2012/1324)

ii) maintain borrowing with the imposed debt ceiling limit (Para 3.6) arising from the Limits on Indebtedness Determination issued under the powers conferred upon the Secretary of State by S168 to 175 of the Localism Act, 2011.

18.0 RECOMMENDATIONS

18.1 The Cabinet is recommended to:-

(i) consider and approve the Housing Revenue Account estimates

(ii) determine the level of associated rents and charges with effect from week one of 2014/15:-

(a) **Rents of Council Dwellings** – agree an average increase of 8.0% raising the average council dwelling rent by £6.76 to £91.33 per week (average rent currently £84.57 per week) – (Para.6.11)

(b) **Rents of Council garages** – agree an increase of 2% to £8.84. (currently £8.67 per week), plus VAT for non-Council tenants) (Para.6.15)

(c) **Service Charges** - delegate to the Acting Head of Adur Homes and Executive Head of Financial Services in consultation with the Cabinet Member for Customer Services, the setting of the service charges (para. 12.2)

(iii) To approve a contribution of **£566,060** to the earmarked reserve specifically for new development and refurbishment of council housing (para. 14.4)

(iv) To approve the HRA Treasury Management Strategy contained in Appendix 6.

SARAH GOBEY

Executive Head of Financial Services and Section 151 Officer

CHRISTINE RYDER

Acting Head of Adur Homes

Background Papers:

Reinvigoration the Right to Buy and one for one replacement – Consultation paper from the Department of Communities and Local Government

Laying the Foundations: A Housing Strategy for England

Guidance On Rents for Social Housing – Draft For Consultation (DCLG, Oct 2013)

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SCHEDULE OF OTHER MATTERS

1.0 COUNCIL PRIORITY

1.1 This report acknowledges the need to link all Council priorities with resource allocation in order to meet and deliver those objectives.

2.0 SPECIFIC TARGETS

2.1 **(A)** Matter considered and no issues identified.
(B) Matter considered and no issues identified.

3.0 SUSTAINABILITY ISSUES

3.1 Well-balanced communities rely upon a diversity of accommodation being available, enabling residents to make housing choices based upon consideration of size, type, tenure and affordability. A vital component of this mixture is accommodation provided by social landlords and the Council is the largest provider of such accommodation in the Adur District. To keep this accommodation well-managed and in good repair, the Council needs a flexible, adaptable approach, albeit with a diminished local freedom to tailor local solutions to meet local needs.

4.0 EQUALITY ISSUES

4.1 Matter considered and no issues identified.

5.0 COMMUNITY SAFETY ISSUES (SECTION 17)

5.1 Matter considered and no issues identified.

6.0 HUMAN RIGHTS ISSUES

6.1 Matter considered and no issues identified.

7.0 FINANCIAL IMPLICATIONS

7.1 Contained within the report.

8.0 LEGAL IMPLICATIONS

8.1 Matter considered and no issues identified.

9.0 CONSULTATIONS

9.1 **(A)** Consultation is conducted with the Adur Consultative Forum

10.0 RISK ASSESSMENT

10.1 Matter considered and no issues identified.

11.0 HEALTH & SAFETY ISSUES

11.1 Matter considered and no issues identified.

12.0 PROCUREMENT STRATEGY

12.1 Matter considered and no issues identified.

13.0 PARTNERSHIP WORKING

13.1 Matter considered and no issues identified.

ADUR:
Housing Revenue Account Budget Report

APPENDIX 1

HOUSING REVENUE ACCOUNT		
	CURRENT ESTIMATE 2013/14	**ESTIMATE 2014/15**
	£	**£**
EXPENDITURE		
General Management	2,660,910	2,436,890
Special Services	746,160	893,370
Rent, Rates, Taxes & Other Charges	29,190	29,780
Repairs & Maintenance	2,088,520	2,413,580
Revenue Contribution to Capital	1,950,000	1,950,000
Provision for refurbishment and new build	346,060	566,060
Charges for Capital / Interest Repayment/Debt Management Expenses	2,637,750	2,868,140
Depreciation transfer to MRR Inc Non Op assets	2,193,020	2,186,710
Bad/Doubtful Debt		50,000
TOTAL EXPENDITURE	12,651,610	13,394,530
INCOME		
Dwelling Rents	(11,551,760)	(12,273,230)
Non-Dwelling Rents	(527,680)	(538,240)
Heating Charges	(69,330)	(70,720)
Leaseholder's Service Charges	(100,000)	(102,000)
Other Service Charges	(359,440)	(366,630)
Contributions towards Expenditure	(15,400)	(15,710)
Interest Received	(28,000)	(28,000)
Transfer re: Shared Amenities	-	-
TOTAL INCOME	(12,651,610)	(13,394,530)
NET (SURPLUS)/DEFICIENCY	-	-
BALANCES		
1st April	(2,108,313)	(2,108,313)
Transfer Surplus / (deficit) from HRA	-	-
31st March	(2,108,313)	(2,108,313)

APPENDIX 2

MAJOR REPAIRS RESERVE		
	CURRENT ESTIMATE 2013/14	**ESTIMATE 2014/15**
	£	**£**
Balanced carried forward	(2,186,000)	(1,741,270)
Transfer from Revenue Account	(2,193,020)	(2,186,710)
MRP on Debt Repayment	2,454,000	2,452,000
Contribution to the Capital Programme	183,750	416,140
(SURPLUS) / DEFICIENCY	(1,741,270)	(1,059,840)

APPENDIX 3

HOUSING REVENUE ACCOUNT	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
EXPENDITURE										
General Management	2,427	2,487	2,549	2,613	2,679	2,745	2,814	2,884	2,957	3,031
Special Services	893	916	939	962	986	1,011	1,036	1,062	1,088	1,117
Rents, Rates, Taxes & Other Charges	30	31	31	32	33	34	35	35	36	37
OVERALL RUNNING COSTS	3,350	3,434	3,519	3,607	3,698	3,790	3,885	3,981	4,081	4,185
Annual Revenue Maintenance Costs	2,414	2,530	2,652	2,781	2,916	3,056	3,204	3,359	3,522	3,692
Revenue Contributution to Capital	2,145	2,832	2,910	2,988	3,065	3,142	3,217	3,293	3,370	3,445
Charges for Capital										
Depreciation	2,187	2,293	2,404	2,520	2,642	2,770	2,904	3,045	3,192	3,346
Interest payable										
Interest - on historic debt	988	974	974	974	974	974	974	974	974	974
Interest - on assumed debt	1,435	1,383	1,331	1,279	1,228	1,176	1,124	1,073	1,021	969
Contingency against interest rise (0.75%)	235	228	220	211	201	194	185	177	168	160
Interest - on capital programme	24	57	118	177	234	289	344	393	440	483
Provisions For Bad Debt	50	50	50	50	50	50	50	50	50	50
Contribution to Reserves	566	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	13,394	13,781	14,178	14,587	15,008	15,441	15,887	16,345	16,818	17,304
INCOME										
Dwelling Rents	-12,273	-12,622	-12,981	-13,350	-13,730	-14,120	-14,522	-14,934	-15,359	-15,796
Other Rents and Charges	-1,093	-1,131	-1,169	-1,209	-1,250	-1,293	-1,337	-1,383	-1,431	-1,480
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
Major Repairs Allowance	0	0	0	0	0	0	0	0	0	0
TOTAL INCOME	-13,394	-13,781	-14,178	-14,587	-15,008	-15,441	-15,887	-16,345	-16,818	-17,304
NET COST OF SERVICES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

HOUSING REVENUE ACCOUNT	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000	2033/34 £'000
EXPENDITURE										
General Management	3,106	3,184	3,264	3,345	3,429	3,514	3,602	3,692	3,785	3,879
Special Services	1,144	1,172	1,201	1,232	1,262	1,294	1,326	1,359	1,394	1,428
Rents, Rates, Taxes & Other Charges	38	39	40	41	42	43	44	45	46	48
OVERALL RUNNING COSTS	4,288	4,395	4,505	4,618	4,733	4,851	4,972	5,096	5,225	5,355
Annual Revenue Maintenance Costs	3,871	4,058	4,254	4,460	4,676	4,902	5,139	5,388	5,649	5,922
Revenue Contributution to Capital	3,527	3,631	3,722	3,797	3,818	3,921	3,968	4,002	4,024	4,039
Charges for Capital										
Depreciation	3,508	3,678	3,856	4,043	4,239	4,444	4,659	4,884	5,120	5,368
Interest payable										
Interest - on historic debt	963	938	932	932	932	932	932	932	932	932
Interest - on assumed debt	918	866	814	763	711	659	607	556	504	452
Contingency against interest rise (0.75%)	151	143	134	125	117	109	102	92	83	75
Interest - on capital programme	527	559	580	604	677	662	695	734	777	818
Provisions For Bad Debt	50	50	50	50	50	50	50	50	50	50
Contribution to Reserves	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	17,803	18,318	18,847	19,392	19,953	20,530	21,124	21,734	22,364	23,011
INCOME										
Dwelling Rents	-16,244	-16,706	-17,181	-17,669	-18,171	-18,687	-19,218	-19,763	-20,325	-20,902
Other Rents and Charges	-1,531	-1,584	-1,638	-1,695	-1,754	-1,815	-1,878	-1,943	-2,011	-2,081
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
Major Repairs Allowance	0	0	0	0	0	0	0	0	0	0
TOTAL INCOME	-17,803	-18,318	-18,847	-19,392	-19,953	-20,530	-21,124	-21,734	-22,364	-23,011
NET COST OF SERVICES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

HOUSING REVENUE ACCOUNT	2034/35 £'000	2035/36 £'000	2036/37 £'000	2037/38 £'000	2038/39 £'000	2039/40 £'000	2040/41 £'000	2041/42 £'000	2042/43 £'000	2043/44 £'000
EXPENDITURE										
General Management	3,976	4,076	4,178	4,282	4,389	4,499	4,611	4,727	4,845	4,966
Special Services	1,464	1,500	1,538	1,576	1,616	1,656	1,698	1,740	1,784	1,828
Rents, Rates, Taxes & Other Charges	49	50	51	53	54	55	57	58	59	61
OVERALL RUNNING COSTS	5,489	5,626	5,767	5,911	6,059	6,210	6,366	6,525	6,688	6,855
Annual Revenue Maintenance Costs	6,208	6,508	6,823	7,153	7,499	7,862	8,242	8,640	9,058	9,496
Revenue Contributution to Capital	4,046	4,045	4,034	4,013	3,981	3,936	3,878	3,807	3,777	3,759
Charges for Capital										
Depreciation	5,628	5,900	6,185	6,484	6,798	7,127	7,472	7,833	8,212	8,609
Interest payable										
Interest - on historic debt	932	932	932	932	932	932	932	932	932	932
Interest - on assumed debt	401	349	297	246	194	142	90	39	0	0
Contingency against interest rise (0.75%)	66	58	49	40	31	23	15	6	0	0
Interest - on capital programme	857	895	931	966	998	1,029	1,059	1,087	1,040	920
Provisions For Bad Debt	50	50	50	50	50	50	50	50	50	50
Contribution to Reserves	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	23,677	24,363	25,068	25,795	26,542	27,311	28,104	28,919	29,757	30,621
INCOME										
Dwelling Rents	-21,495	-22,106	-22,733	-23,379	-24,042	-24,724	-25,426	-26,148	-26,889	-27,652
Other Rents and Charges	-2,154	-2,229	-2,307	-2,388	-2,472	-2,559	-2,650	-2,743	-2,840	-2,941
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
Major Repairs Allowance	0	0	0	0	0	0	0	0	0	0
TOTAL INCOME	-23,677	-24,363	-25,068	-25,795	-26,542	-27,311	-28,104	-28,919	-29,757	-30,621
NET COST OF SERVICES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

SOCIAL HOUSING RENTS CHARGED BY LOCAL AUTHORITIES IN SUSSEX

Average weekly rent per dwelling on a standardised 52 week basis

Area	No weeks	Rent	Ave rent over 52 weeks	Difference v Adur (average)
Crawley	48	£109.83	£101.38	33.2%
Lewes	52	£80.57	£80.57	5.9%
Arun	52	£76.79	£76.79	0.9%
Adur	**52**	**£76.11**	**£76.11**	
Brighton and Hove	52	£70.76	£70.76	-7.0%
Wealden	48	£75.61	£69.79	-8.3%
Eastbourne	52	£68.38	£68.38	-10.2%

SOCIAL HOUSING SECTOR RENTS CHARGED IN SUSSEX 2011-12

Source: Valuation Office Agency					
Area	**No. of Rents**	**Average**	**Lower Quartile**	**Upper Quartile**	**Difference vs Adur (average)**
Horsham	1,036	£973	£695	£1,095	30%
Brighton & Hove UA	3,145	£959	£650	£1,200	28%
Mid Sussex	928	£917	£675	£995	23%
Wealden	553	£915	£625	£975	22%
Lewes	810	£864	£650	£925	16%
Chichester	1,209	£848	£625	£935	14%
Crawley	660	£828	£650	£950	11%
West Sussex ave.	7,398	£791	£575	£895	6%
Adur	**344**	**£747**	**£585**	**£825**	**0%**
Arun	2,009	£684	£520	£795	-8%
East Sussex ave.	5,040	£680	£472	£795	-9%
Rother	774	£674	£500	£775	-10%
Worthing	1,212	£651	£525	£750	-13%
Eastbourne	1,363	£645	£450	£750	-14%
Hastings	1,540	£534	£400	£625	-29%

RENTS CHARGED AT ADUR DISTRICT COUNCIL 2011/12 TO 2013/14

Adur DC	Average Rent			Increase on Previous Year		RPI inc. from Previous Year		Formula Rent
	2011/12	**2012/13**	**2013/14**	**2012/13**	**2013/14**	**2012/13**	**2013/14**	**2013/14**
Bedsits	£57.89	£61.98	£63.15	7.0%	1.9%			£67.79
1 bed	£67.96	£72.92	£74.81	7.3%	2.6%			£81.34
2 bed	£76.87	£82.79	£85.31	7.9%	3.0%			£93.50
3 bed	£86.03	£92.95	£96.37	7.8%	3.7%			£106.94
4 bed	£91.24	£98.02	£102.23	8.1%	4.3%			£115.92
5 bed	£91.97	£99.58	£104.66	8.3%	5.1%			£127.64
All	**£76.17**	**£82.01**	**£84.56**	**7.7%**	**3.1%**	**5.6%**	**2.6%**	**£92.86**

RENTS CHARGED AT ADUR DISTRICT COUNCIL 2011/12 TO 2013/14

Note: Average figures may differ from ELASH return due to properties bought/sold in period since return made to CLG

SUMMARY INFORMATION

Social housing rents charged by Crawley BC are approx 33% higher than rents charged by Adur DC (Private rents in Crawley are approx 11% higher than Adur).

Social housing rents charged by Arun DC are approx 1% higher than rents charged by Adur DC (Private rents in Arun are approx 8% lower than Adur).

Social housing rents charged by Brighton and Hove CC are approx 7% lower than rents charged by Adur DC (Private rents in Brighton and Hove are approx 28% higher than Adur).

Since 2011/12, Adur rents are likely to have remained approximately the same or fallen relative to the average for Sussex

Rents in 2012/13 were increased by an average 2.1% more than RPI. Rents in 2013/14 were increased by just 0.5% more than RPI.

Rents at Adur are still considerably lower than formula rents.

Data for 2012/13 - Adur DC and Worthing Homes (Registered Social Landlord)									
	Av rent (WH all stock)	**Av rent (WH in Adur)**	**Av rent (ADC)**	**Av FR (WH all stock)**	**Av FR (WH in Adur)**	**Av FR (ADC)**	**AR:FR (WH all stock)**	**AR:FR (WH in Adur)**	**AR:FR (ADC)**
Bedsit	£66.72		£61.98	£66.89		£65.68	99.7%		94.4%
1 bed	£78.74	£77.81	£72.92	£78.77	£82.49	£77.94	100.0%	94.3%	93.6%
2 bed	£91.99	£97.20	£82.79	£93.44	£96.78	£89.57	98.4%	100.4%	92.4%
3 bed	£102.69	£104.17	£92.95	£106.63	£108.81	£102.46	96.3%	95.7%	90.7%
4 bed	£112.33		£98.02	£124.54		£111.62	90.2%		87.8%
5 bed	£109.11		£99.58	£134.86		£122.31	80.9%		81.4%
6+ beds	£133.81			£132.85			100.7%		
All	**£91.20**	**£94.69**	**£82.01**	**£93.24**	**£97.65**	**£89.04**	**97.8%**	**97.0%**	**92.1%**

APPENDIX 5

ADUR HOMES – RENT

From 2015/16 DCLG intend that rent policy will be CPI+1%. For 2014/15 there are no restrictions from DCLG, although further confirmation is awaited.

	£	
Current rental income 2013/14	**11,575,730**	1% increase = 115,760
Increase 8%	12,501,790	
	926,060	
Costs increase estimate 2014/15		
Increase in repairs	120,650	
Increase in other costs	210,180	
	330,830	
Additional income over costs	**595,230**	

Proposed Growth	£	Theme	Comments
Voids refurbishments	100,000	Improved customer services and improved housing stock	Although we have a 2 day turnaround for voids due to choice based letting, letting period is approximately 3 weeks. Improving voids is beneficial to tenant and Adur Homes
Housing Manqagement Officer and Tenant Support Officer	70,000	Wave catcher 2 – Cultivating enterprising communities by recognising opportunities, sharing knowledge and skills and “getting out of the way”	Enabling and empowering our tenants
Bad Debt Provision	50,000	Welfare Reform	Reduction in Housing Benefit for under occupation of social housing.
Job Evaluation	50,000	Corporate requirement	This is a “guestimate”
Cyclical maintenance	150,000	Maintaining housing stock	Improved cyclical maintenance has a positive impact on re-active repairs
Buy Back leasehold flats	180,000	Viability of the business and to meet housing needs	We need to replace stock we lose via RTB.
TOTAL	**600,000**		

APPENDIX 6

HRA TREASURY MANAGEMENT STRATEGY

1.0 INTRODUCTION

1.1 This Appendix sets out the HRA Treasury Management Strategy Statement for 2014-15. The requirement to produce a separate strategy specifically for HRA is a direct consequence of the introduction of the self-financing regime, as it reflects the underlying principle that borrowing and debt management decisions should operate equitably and independently from the General Fund.

1.2 The strategy presented and proposed for 2014/15 is unchanged from 2013/14, as it has been accepted by the Council's external auditors in the first two years of self-financing as an appropriate method of apportioning debt management costs and interest accrued from balances and investments between HRA and General Fund.

1.3 Underpinning all Treasury Management activity of the Council is the CIPFA Treasury Management Code of Practice, which was last revised in November 2011 to address the implications for introducing HRA Self-financing from 2012/13.

1.4 The published Code identified the need for local authorities "….to allocate existing and future borrowing costs between housing and General Fund as the current statutory method of apportioning debt charges between the General Fund and HRA will cease".

1.5 The Code set out options for doing this, in respect of which the Council's Treasury Management consultants Sector were invited to provide comment and analysis. The results were presented to Cabinet in the HRA Budget Report 2012/13 at the meeting of 7 February 2012, at which it was agreed to adopt CIPFA's "Two-Pooled Approach". This entailed allocating historic debt at 31 March 2012 between HRA and General Fund, with any new debt acquired after this date to be assigned to the HRA or General Fund according to the purpose for which it is acquired.

1.6 Additionally, the Strategy aims to achieve borrowing outcomes that are affordable, sustainable and prudent in keeping with the requirements of the Prudential Code for Capital Finance in Local Authorities. This Code requires the Council to consider the impact of borrowing as well as address a number of other fundamental principles, being:

(i) The splitting of loans (i.e. debt) at the HRA Settlement transition date must be of no detriment to the General Fund.

(ii) The Council is required to deliver a solution that is broadly equitable between the HRA and the General Fund;

(ii) Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving the HRA greater freedom, independence, certainty and control;

(iv) Un-invested balance sheet resources which allow borrowing to be below the CFR are properly identified between General Fund and HRA.

APPENDIX 6

HRA TREASURY MANAGEMENT STRATEGY

1.6 Points (i) – (iii) above were addressed by adopting the “Two-Pool Approach”. The last point is met in the Startegy in accordance with the CIPFA Treasury Management code recommendation that the effect should be included in the interest on balances calculation to appropriately allocate the respective portions to HRA and General Fund.

1.7 With these background principles and approaches in place the HRA Treasury Management Strategy aims to cover:

- Overall Objectives

- The Current & Future Position – Underlying Need to Borrow compared to Actual Borrowing

- The Debt Maturity Profile & Headroom for New Borrowing

- How to allocate debt and attributable financing costs between HRA and General Fund equitably

- How to recognise HRA cash balances and reserves which form part of the Council’s total investments

- How to recognise any costs or revenues generated from Over/under borrowing

1.8 Accordingly, these aspects of the Strategy are approached in turn.

2.0 OVERALL OBJECTIVES OF THE HRA TREASURY MANAGEMENT STRATEGY

2.1 The central aim of the Strategy agreed for 2013/14 and unchanged for 2014/15 is:

- to provide borrowing that is affordable, sustainable and prudent, as required by The Prudential Code, and which underpins the requirements of the HRA Capital Investment Programme, 30 year Business Plan, and any other corporate plans.

- to manage the HRA investments and cash flows, its banking, money market and capital market transactions within the purview of the Council’s overall Treasury Management Strategy, and to provide effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- to support budget and service delivery objectives for the benefit of tenants at no detriment to the General Fund or council taxpayers generally.

APPENDIX 6

HRA TREASURY MANAGEMENT STRATEGY

3.0 THE CURRENT POSITION – UNDERLYING NEED TO BORROW COMPARED TO ACTUAL BORROWING

3.1 The underlying need to borrow for capital investment is called the Capital Financing Requirement (CFR) and relates to the amount of planned capital expenditure that is not financed from internal resources, which for HRA are primarily capital receipts, revenue contributions, and the Major Repairs Reserve.

3.2 Capital expenditure in any year above the amount allocated to be used from these resources must be financed from borrowing or other credit arrangement (e.g. leasing), and results in an increase to the CFR. By comparing the CFR to the amount of actual borrowing the extent to which the Council is under or over borrowed is determined, and provides a key prudential indicator for performance management. The current estimates based on the capital investment programme for the next three years is shown in the table below:

Adur District Council	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Capital Financing Requirement (CFR)					
General Fund	12.892	14.076	15.108	15.361	16.713
Housing Revenue Account	66.078	65.562	63.994	63.284	62.655
Total CFR	**78.970**	**79.638**	**79.102**	**78.645**	**79.368**
Actual Debt					
General Fund	(16.490)	(13.185)	(12.969)	(12.969)	(12.968)
Housing Revenue Account	(65.818)	(64.982)	(62.993)	(61.287)	(59.581)
Total Debt Amount	**(82.310)**	**(78.167)**	**(75.962)**	**(74.255)**	**(72.549)**
(Over)/Under Borrowing					
General Fund	(3.600)	0.891	2.139	2.392	3.744
Housing Revenue Account	0.260	0.580	1.001	1.997	3.074
Total	**(3.340)**	**1.471**	**3.140**	**4.389**	**6.818**
HRA Borrowing Headroom	**3.094**	**3.930**	**5.919**	**7.625**	**9.331**

(Note that the General Fund position is shown for comparative purposes and is extracted from the Annual Treasury Management & Annual Investment Strategy Report 2014/15-2016/17 submiited to the meeting of the Joint Strategic Committee on 6 February 2014.

HRA TREASURY MANAGEMENT STRATEGY

3.0 THE CURRENT POSITION – UNDERLYING NEED TO BORROW COMPARED TO ACTUAL BORROWING

3.3 The comparison shows the HRA is under borrowed at the end of 2013/14 by £580k, reflecting the amount by which debt aoutstanding and MRP has reduced over and above the incidence of new capital expenditure financed from borrowing since 2012/13. In the following years the amount by which actual borrowing is below CFR increases as the value of of debt repaid and MRP provided for in each year exceeds the amount of new borrowing anticipated to fund capital investment.

3.4 The propensity to bring actual borrowing into line with the CFR is constrained by the requirement to stay within the HRA Debt Limit of £68.912m imposed by Central Government. This is only a constraint if the CFR based on capital investment proposals is above the debt limit. However, for all years from 2013/14 to 2016/17 the CFR is projected to be below the debt as reflected in the capital investment proposals approved by the meeting of the Joint Strategic Committee on 3 December, 2013.

4.0 THE DEBT MATURITY PROFILE AND HEADROOM FOR NEW BORROWING

4.1 The last row of the table in the preceding section compares the existing debt profile with the Debt Ceiling Limit of £68.912m. The amount by which actual borrowing is below the limit provides "Headroom" for new borrowing to fund capital expenditure. For each of the years to 2016/17 the headroom is more than sufficient to allow new borrowing to occur to bring total indebtedness in line with the underlying need to borrow as measured by the CFR – albeit the decision to borrow will be influenced by the prevailing forecast for interest rates, alternative sources of capital funding, and the ability to meet the direct financing costs of borrowing from within the approved HRA budget.

4.2 The borrowing profile of the debt portfolio over the 30 years from 2012/13 is illustrated graphically at the end of this Strategy document to show the increasing headroom that exists for future borrowing to fund new capital expenditure.

5.0 HOW TO ALLOCATE DEBT AND ATTRIBUTABLE FINANCING COSTS BETWEEN HRA AND GENERAL FUND EQUITABLY – THE TWO POOLED APPROACH

5.1 The methodology adopted in the Strategy draws upon CIPFA guidance relating to the two pooled approach, the essence of which is:

– to disaggregate historic debt at the HRA Debt Settlement transition date by the CIPFA methodology and allocate the respective portions to the HRA and General Fund. To each share is added new debt arising after the transition date according to the purpose for which it was incurred.

HRA TREASURY MANAGEMENT STRATEGY

5.0 HOW TO ALLOCATE DEBT AND ATTRIBUTABLE FINANCING COSTS BETWEEN HRA AND GENERAL FUND EQUITABLY – THE TWO POOLED APPROACH

5.2 In adopting this methodology, the Council was mindful of its Treasury Management Consultant's comments that "The two pool approach is the preferred option by CIPFA and DCLG. It is relatively simple and allows the HRA to present a preferred funding structure to the Treasury Management team. It allocates a greater proportion of fixed rate borrowing to the HRA, which may suit its needs as it provides a greater degree of certainty over initial costs".

5.3 Another reason for adopting the two pool approach was that an assessment was made of the impact of the resultant financing costs at transition on the HRA and it was concluded that it the effect was negligible.

5.4 For historic debt at the transition date, the two pooled approach assumed the HRA was fully borrowed at the level of its CFR, with the residual debt attributed to the General Fund. Thus, any over borrowing at that date was attributed to the General Fund, rather than shared with the HRA. The effect at 31 March 2012 of applying the two pooled approach was:

CFR Allocations at Transition Date		Debt Allocations at Transition Date	
	£000		**£000**
HRA	68,676	HRA	68,676
General Fund	11,160	General Fund	13,430
TOTAL	**79,836**	**TOTAL DEBT**	**82,106**

6.0 HOW TO RECOGNISE HRA CASH BALANCES AND RESERVES WHICH FORM PART OF THE COUNCIL'S TOTAL INVESTMENTS

6.1 Before 2012/13, the former subsidy system provided for a statutory determination – the Item 8 credit – to attribute interest on notional average HRA cash balances to the HRA Comprehensive Income and Expenditure statement.

6.2 This recognised the general principal that the HRA should benefit from its cash balances and reserves, and the introduction of the self-financing arrangements did not alter this principle.

6.3 The Strategy adopts the CIPFA recommended approach for all investments to be pooled, since it is states that the "interest on cash balances calculation can be used to manage the charge between HRA and General Fund". Accordingly, to do this the Strategy retains the use of the notional average cash balance approach used within the former Statutory Item 8 calculation as the basis for crediting the HRA share of interest receivable.

HRA TREASURY MANAGEMENT STRATEGY

7.0 HOW TO RECOGNISE ANY COSTS OR REVENUES GENERATED FROM OVER/UNDER BORROWING

7.1 In practice it is recognised that there will be timing differences between the Council's underlying need to borrow (the CFR) and actual borrowing.

7.2 Where under borrowing occurs, the Council is drawing upon internal reserves and balances to fund capital expenditure, and therefore bears the cost of interest foregone on the amount of cash consumed that might otherwise be invested.

7.3 Conversely, where over borrowing occurs surplus cash to requirements is held that forms part of surplus cash available for investment. This may arise where borrowing for capital expenditure is undertaken in advance of actual expenditure to take advantage of low interest rates.

7.4 In both scenarios the CIPFA Treasury Management code states that the effect should be included in the interest on balances calculation to appropriately allocate the respective portions to HRA and General Fund.

7.5 Accordingly, the Strategy adopts the approach whereby the relevant credit or debit shall be computed with reference to the difference between the HRA and General Fund CFR and the respective actual debt during the year. Where an Over-borrowing position occurs interest shall be credited according the average rate of interest on all investments prevailing for the period during which the over borrowing was sustained. For an under-borrowed position, interest shall be charged to reflect the interest foregone through consumption of internal resources and at the average rate of all investments achieved during the period of under borrowing.

HRA Debt Repayment Profile Compared with Debt Ceiling 2013-2042