

COMMUNITY AND SOCIAL AFFAIRS COMMITTEE

25 JANUARY 2011

JOINT REPORT OF HEAD OF CENTRAL SERVICES & HEAD OF COMMUNITIES

REVENUE BUDGET PROPOSALS 2011-12 - HOUSING REVENUE ACCOUNT (HRA)

1 PURPOSE OF REPORT

- 1.1 To set the rents of Council dwellings, approve the HRA estimates for 2011-12 and set the working balance for 2011-12.

2.0 RECOMMENDATIONS

2.1 *It is recommended that:*

- (i) *The Committee approve an average rent increase of 6.30% for Council dwellings for 2011-12 with effect from 4 April 2011 and that when a property is re-let the rent is brought in to line with the Governments formula rent;*
- (ii) *The estimates for 2011-12 be approved;*
- (iii) *A working balance of £257,650 is budgeted for at 31st March 2012 based on an average 6.30% rent increase.*

3. KEY ISSUES

3.1 Background

- (a) The operation of the HRA is governed by the Local Government and Housing Act 1989. Some of the key requirements are detailed below:
- The HRA is a ring-fenced landlord account recording certain defined transactions arising from the powers conferred on local housing authorities by Part II of the Housing Act 1985 and certain provisions of earlier legislation;
 - The Council has a duty to keep an HRA in accordance with proper accounting practices;
 - The Council has a duty to produce and publish an annual budget for the HRA which avoids a deficit;
 - The Council has a duty to review and if necessary revise that budget from time to time. If it appears that the HRA is heading for a deficit, all reasonable and practicable steps must be taken to avoid a deficit at the end of the year.
- (b) Rent income is one of the main components of the HRA and we are now entering the tenth year of the rent restructuring exercise, which was introduced by the Government in 2002-03. This was originally a ten-year scheme designed to achieve comparable rents for similar properties across all social landlords taking into account local circumstances. However, this year and for the purpose of setting the 2011-12 guideline rent the Government has brought back the date for rental convergence from 2012-13 last year to 2015-16 this year. This is being done due to the high

inflation rate of 4.60%. The average guideline rent increase for 2011-12 is 6.80%. The convergence date will again be re-assessed for 2012-13 depending upon the rate of inflation at that time. Rent restructuring must be applied at an individual property level which necessitates the need to increase tenants' rents by variable amounts and maintaining an overall average rent increase within a 6.80% limit.

- (c) Each year the Department for Communities and Local Government (DCLG) sets a formula rent for each Council to apply to its housing stock and a guideline rent increase. If the Council continues to set rents above a prescribed "limit rent" then rent rebate subsidy limitation applies. This reduces the Council's entitlement to benefit subsidy, which ultimately has an impact on the General Fund (GF) as rent rebates are charged to the GF. During 2010-11 we have not been able to reach the limit rent and so no charge to the HRA from the GF will apply. There will also be no impact of this recommended rent increase to the HRA for 2011-12 in respect of this subsidy.

3.2 HRA Estimates and Rent Increase Options

- (a) A summary of the estimates for the HRA is attached at Appendix A.
- (b) The table below shows the projected surplus and the year-end position for the HRA working balance. The 2011-12 figures assume that rents will increase by an average 6.3% to £63.90, which is within the Government's caps and limits on the overall average rent increase compared to 2010-11. There are also limits set on individual property increases which have restricted us to 6.3% rather than the Government's limit of 6.8% as explained further in (j) below.

	Original Estimate	2010-11 Estimated Year End Position	2011-12 Estimate
	£	£	£
Surplus/Deficit (-) for year	145,190	161,520	920
Working Balance B/fwd	4,856	95,210	256,730
Working Balance C/fwd	150,046	256,730	257,650

- (c) The Council's Medium Term Financial Strategy will be submitted for approval by the Policy Finance and Administration Committee meeting, to be held on the 26th January 2011 recommending that the working balance minimum for the HRA of £250,000 be maintained.
- (d) A further main component of the HRA is Government subsidy (called HRA Subsidy). It is calculated by constructing a notional HRA with any surplus on this notional account being due to the Government. The subsidy surplus due to the Government, which has been included in the estimates and notional HRA for 2010-11 and 2011-12 are shown below. The increase during 2010-11 is due to the lower than anticipated average interest rate applied to borrowing in 2009-10 and 2010-11 and in 2011-12 the rate of inflation used – RPI at September 2010 – at 4.60% has resulted in a much increased guideline rent:-

	Original Estimate	2010-11 Estimated Year End Position	2011-12 Estimate
	£000	£000	£000
Expenditure			
Management and Maintenance	2,809	2,809	2,887
Charges for Capital	299	263	257
Major Repairs Allowances	1,196	1,196	1,214
Total Expenditure	4,304	4,268	4,358
Income			
Rent	5,873	5,873	6,253
Interest	0	0	0
Total Income	5,873	5,873	6,253
Previous year Adjustment	0	28	0
HRA Surplus for the year due to the Govt.	1,569	1,633	1,895

- (e) The general formula for calculating the amount of Housing Revenue Account subsidy payable to the Authority for 2011-12 is essentially unchanged from 2010-11. The much anticipated HRA reform is now expected to be reviewed and included in the Localism bill which may have a legislated impact on this account in the future.
- (f) Until the financial year 2004-05 it was a requirement that an amount equal to 2% of the outstanding HRA debt be set a-side as a provision to repay that debt. This is known as the Minimum Revenue Provision (MRP). It should be noted that there is no longer a requirement under the Local Government Act 2003 to charge an MRP to the HRA as a provision for the repayment of debt; however, interest still has to be charged. As such the total amount of debt outstanding within the HRA will actually increase as new borrowing is undertaken. This change in legislation was reported to a meeting of this Committee held on 12 January 2005.
- The government are also continuing to support the interest cost of supported borrowing via the subsidy mechanism. Therefore it is recommended that no provision be provided for in the estimates for next year in respect of supported borrowing.
- (g) The Local Government Act 2003 also introduced new borrowing freedoms for Councils to fund their capital programmes if affordable and sustainable. This is known as prudential borrowing or unsupported borrowing and does not attract any form of Government financial support for the debt repayment. Unsupported borrowing of £448,000 was taken out during 2009-10 so an MRP charge is appropriate in 2010-11 of £14,250. This amount will also be appropriate for 2011-12. The MRP takes into account the useful life of the purchased assets and in addition an amount of £75,350 is also charged to the Major Repair Reserve each year in order to ensure that the borrowing is repaid within a five year period.
- (h) A review of support service charges to the HRA has been undertaken and revised charges have been reflected in the estimates.
- (i) Following a review of Melton's limit rent level by the DCLG it is now expected that the average rent for Melton will fall below this limit. This will mean that if a 6.30% rent increase is approved; being within the limit recommended by the DCLG to protect tenants, there will be no contribution to the GF for subsidy limitation next year for the HRA as noted in 3.1 (b) above.
- (j) Under the rent restructuring scheme the Government expects the Council to increase rents by 5.10% plus a 1/5th movement to the formula rent. However, this increase must be limited for each property to 5.10% plus a 1/5th movement to the formula rent or 5.10% plus £2, whichever is the lower, to protect individual tenants from large

increases. The formula rent is applied to individual properties but the average rent for all properties is not expected to exceed 6.80%. This year the individual property limits are restricting the Council to the 6.30% average increase.

- (k) The cleansing of communal areas is an offsetting line in the HRA budget i.e. the expenditure will directly match the income giving an entirely neutral impact on the working balance. There is a further report to this committee on that item.

4.0 POLICY AND CORPORATE IMPLICATIONS

- 4.1 There are no further policy and corporate implications arising from this report.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

- 5.1 Financial and other resource implications are addressed in this report and Appendix A.

6.0 LEGAL IMPLICATIONS/POWERS

- 6.1 There are no legal implications directly arising from this report.

7.0 COMMUNITY SAFETY

- 7.1 There are no direct links to community safety arising from this report.

8.0 EQUALITIES

- 8.1 An Equalities Impact Assessment form has been completed by the Head of Communities which confirms that there are no specifically adversely affected groups and therefore no action plan is necessary. The assessment is attached at Appendix B.

9.0 RISKS

- 9.1 For the past three years we have struggled to control spending on the HRA. The risk of a further year of selective repairs is high as we ensure that the account does not reach a deficit position. During 2010-11 controls on repairs spending have become greatly enhanced but demand remains high.

10.0 CLIMATE CHANGE

- 10.1 There are no climate change issues directly arising from this report.

11.0 CONSULTATIONS

- 11.1 The Budget Holders and the Head of Communities carried out the review of estimates with the assistance of the Service Accountant as required with reference to current budget monitoring protocols.

- 11.2 The Tenants Forum Executive Committee has been consulted on this report, and are in agreement with the recommendations contained in this report relating to the average rent increase.

12.0 WARDS AFFECTED

- 12.1 All wards are affected.

Contact Officer: Carol King

Date: 12 January 2011

Appendices: Appendix A – HRA estimates
Appendix B – Equalities Impact Assessment

Background Papers: Oracle Financial Reports
HRA Budget Setting Working Papers

Reference: X: Committees/CSA/2011/25-1-11/HRA Revenue Budget Proposals
2011-12