

## COMMUNITY AND SOCIAL AFFAIRS COMMITTEE

24 JANUARY 2012

### JOINT REPORT OF HEAD OF CENTRAL SERVICES & HEAD OF COMMUNITIES & NEIGHBOURHOODS

#### REVENUE BUDGET PROPOSALS 2012-13 - HOUSING REVENUE ACCOUNT (HRA)

#### 1 PURPOSE OF REPORT

- 1.1 To set the rents of Council dwellings, approve the HRA estimates for 2012-13 and set the working balance for 2012-13 following the final draft determination for self-financing.

#### 2.0 RECOMMENDATIONS

#### 2.1 *It is recommended that:*

- (i) *The Committee approve an average rent increase of 7.20% for Council dwellings for 2012-13 with effect from 2 April 2012 and that when a property is re-let the rent continues to be brought into line with the Governments formula rent;*
- (ii) *The estimates for 2012-13 be approved subject to the receipt of the Final Determination with delegated authority being given to the Head of Central Services in consultation with the Head of Communities & Neighbourhoods to amend the estimated working balance based on any minimal changes to this Determination;*
- (iii) *The committee approve an increased working balance level of £500,000 by 31 March 2013;*
- (iv) *A working balance of £569,800 is budgeted for at 31 March 2013 based on an average 7.20% rent increase;*
- (v) *The committee approve the creation of an HRA reserve for development and regeneration.*

#### 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 eleventh 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 2012/13 guideline rent the Government has kept the date for rental convergence as 2015/16, the same as last year. The average guideline rent increase for 2012/13 is 7.20%. The convergence date is now expected to remain as 2015/16 as in the self-financing calculation. Rent restructuring must be applied at an individual property level which necessitates the need to increase tenants' rents by variable amounts within individual property limits.
- (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 2011-12 we have not been able to reach the limit rent and so no charge to the HRA will apply. There will also be no impact of this recommended rent increase to the HRA for 2012-13 in respect of this subsidy, which will continue to apply under self-financing.

### 3.2 HRA Estimates and Rent Increase Options

- (a) A summary of the estimates for the HRA is attached at Appendix A. These have been prepared on the basis of self-financing, more details on which are included in another report to this committee.
- (b) The table below shows the projected surplus and the year-end position for the HRA working balance. The 2012-13 figures assume that rents will increase by an average 7.20%, compared to 2011-12.

	<b>Original Estimate</b>	<b>2011-12 Estimated Year End Position</b>	<b>2012-13 Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Surplus/Deficit (-) for year	920	20,900	150,970
Working Balance B/fwd	256,730	397,930	418,830
Working Balance C/fwd	257,650	418,830	569,800

- (c) The Council's Medium Term Financial Strategy due to be presented to the Policy Finance and Administration Committee meeting on 25 January 2012 recommends that the target working balance for the HRA of £250,000 be increased to £500,000 by 31 March 2013 to reflect the additional risks associated with a self-financed HRA.
- (d) Prior to the HRA reform the HRA paid a subsidy back to the Government, this payment will no longer be required.
- (e) 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. This change in legislation was reported to a meeting of this Committee held on 12 January 2005. This same legislation 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.

- (f) Where unsupported borrowing is undertaken for the HRA it is considered prudent to make a provision for MRP and so as unsupported borrowing of £448,000 was taken out during 2009/10 so an MRP charge is appropriate in 2011/12 of £14,250. This amount will also be appropriate for 2012/13. This is in addition to the voluntary contribution from the Major Repairs Reserve to repay the debt over an agreed period.
- (g) For the self financing settlement the Government has stated that the repayment of borrowing is not required but the Council can opt to repay the debt rather than build up cash reserves where it considers this to be in the best interests of the Council and the Housing Service.
- (h) Interest on borrowing is a cost to the HRA and as a result of the new borrowing this has increased significantly in 2012/13.
- (i) In regard to the self-financing reform the Government are imposing a cap on HRA borrowing to the amount of the self-financing debt level. Local authorities will therefore no longer be able to borrow amounts above this cap. The cap for MBC is £33,742,000. Following the payment to the DCLG the headroom between actual debt and the borrowing cap will be £1,648,897 if no other borrowing is undertaken by the end of this financial year.
- (j) A review of support service charges to the HRA has been undertaken and revised charges have been reflected in the estimates.
- (k) 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 7.20% rent increase is approved, there will be no contribution to the GF for subsidy limitation next year for the HRA as noted in 3.1 (c) above.
- (l) Under the rent restructuring scheme the Government expects the Council to increase rents by 6.10% plus a 1/4th movement to the formula rent. However, this increase must be limited for each property to 6.10% plus a 1/4th movement to the formula rent or 6.10% plus £2, whichever is the lower, to protect individual tenants from large increases. This year the individual property limits are restricting the Council to the 7.20% average increase.
- (m) Due to the long term nature of the self financing housing reform it is recommended that a housing capital reserve be set up to enable the opportunities arising to be used for the development and regeneration of the housing service and to ensure short-term surpluses are reinvested into the housing stock as they are required in the longer term. The policy covering the use of the reserve will be set out in the budget report to Full Council where all the Council's policies and reserves are reported.

#### **4.0 POLICY AND CORPORATE IMPLICATIONS**

- 4.1 The HRA reserve for development and regeneration should be set-aside for specific housing and regeneration needs within the ring-fence of the HRA with its use determined by CSA and PFA as per the Council's procedures relating to the use of other reserves.

#### **5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

- 5.1 The spread of debt which will be taken up by the HRA has not yet been determined and further consultation with our Treasury Management consultants will be undertaken, so the interest payable amount in the budget is subject to change based

on this point. Full financial and other resource implications are addressed in this report and Appendix A. In addition more implications are addressed in regard to self-financing in another report to this committee.

## 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 for the budget by the Head of Communities & Neighbourhoods which confirms that there are no specifically adversely affected groups and therefore no action plan is necessary.

## 9.0 RISKS

9.1 For the previous 3 years we 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 became greatly enhanced but demand remains high.

9.2 Self-financing puts new pressures on the Council to continue to provide decent housing for its tenants outside of the subsidy system. The requirement to profile spending to need may mean that large short-term balances within the HRA are built up and it is imperative that these balances are saved for future spending.

9.3 Due to the level of borrowing within the HRA there will be an increased risk from treasury management activity, the recommended increase to the working balance assists in mitigating this risk to a small extent.

9.4 Further risks in regard to the HRA reform have been identified in other reports as follows:

### Probability



Very High A		2		
High B	5			
Significant C			3	
Low D			4,6	
Very Low E			1,7	
Almost Impossible F				
	IV Neg- ligible	III Marg- inal	II Critical	I Catast- rophic

Impact →

Risk No.	Description
1	Interest Rate Fluctuation on short and long term borrowing undermines the business plan
2	Rents will not reach full convergence in line with Social Rent policy due to caps & limits imposed
3	Proportion of RTB receipts not retained within the HRA due to pressures on other funds
4	Long term ability to fund stock to ensure kept within the decent homes standard
5	Impact of the inability to borrow beyond the self financing cap to fund capital repairs
6	Maintenance of stock within budget constraints
7	Robustness of stock condition survey

**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 & Neighbourhoods 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 on 20 December 2011, and are in agreement with the recommendations contained in this report relating to the average rent increase and the increased working balance level.

**12.0 WARDS AFFECTED**

12.1 All wards are affected.

Contact Officer: Carol King

Date: 10 January 2012

Appendices: Appendix A – HRA estimates

Background Papers: Oracle Financial Reports  
HRA Budget Setting Working Papers

Reference: X: Committees/CSA/2011/24-1-12/HRA Revenue Budget Proposals  
2012-13