

COMMUNITY AND SOCIAL AFFAIRS COMMITTEE

22 JANUARY 2013

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

REVENUE BUDGET PROPOSALS 2013-14 - HOUSING REVENUE ACCOUNT (HRA)

1 PURPOSE OF REPORT

- 1.1 To set the rents of Council dwellings, approve the HRA estimates for 2013-14 and set the working balance for 2013-14.

2.0 RECOMMENDATIONS

2.1 *It is recommended that:*

- (i) *The Committee approve an average rent increase of 4% for Council dwellings for 2013-14 with effect from 1 April 2013 and that when a property is re-let the rent continues to be brought into line with the Governments formula rent;*
- (ii) *The Committee approve an increase in guest room charges as noted in paragraph 3.2 (h);*
- (iii) *The estimates for 2013-14 be approved subject to the receipt of the limit rent 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 changes to this Determination;*
- (iv) *A working balance of £1,073,042 is budgeted for at 31 March 2014 based on an average 4% rent increase;*
- (v) *A minimum working balance of £750,000 be approved.*

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 twelfth year of the Government's rent restructuring exercise with convergence expected in 2015/16. The Government's expectation in the self financing debt settlement and therefore our business plan was that this national rent restructuring policy would continue with the use of the September RPI figure + 0.5% as the basis for annual rental increases. The average formula rent increase for 2013/14 is therefore 3.1%. 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) continues to set a limit rent for each Council to apply to its housing stock in addition to the formula rent increase noted above. 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 2012-13 we have not reached 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 2013-14 in respect of this subsidy, which continues 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.
- (b) The table below shows the projected surplus and the year-end position for the HRA working balance. The 2013-14 figures assume that rents will increase by an average 4%, compared to 2012-13.

	Original Estimate	2012-13 Estimated Year End Position	2013-14 Estimate
	£	£	£
Surplus/Deficit (-) for year	150,970	121,460	224,510
Working Balance B/fwd	418,830	727,072	848,532
Working Balance C/fwd	569,800	848,532	1,073,042

- (c) The Council's Medium Term Financial Strategy due to be presented to the Policy Finance and Administration Committee meeting on 23 January 2013 recommends that the target working balance for the HRA be increased to £750,000 to further reflect the additional risks associated with a self-financed HRA and the need to ensure we are in a sustainable position to continuously maintain and improve our housing stock.
- (d) Under the Local Government Act 2003 new borrowing freedoms for Councils to fund their capital programmes if affordable and sustainable were introduced. This is known as prudential borrowing or unsupported borrowing and does not attract any form of Government financial support for the debt repayment. Where unsupported borrowing is undertaken for the HRA it is considered prudent to make a provision for repayment and so as unsupported borrowing of £448,000 was taken out during 2009/10 so a Minimum Revenue Provision (MRP) charge is appropriate from 2011/12 of £14,250. This amount will also be appropriate for 2013/14. This is in addition to the voluntary contribution from the Major Repairs Reserve to repay the debt over the agreed period.
- (e) 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. No repayment of debt is proposed in 2013/14.

- (f) In regard to the self-financing reform the Government continues to impose 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 £33.554m. The headroom between actual debt and the borrowing cap is expected to be around £1.7m at 1 April 2013, assuming no other borrowing is undertaken by the end of this financial year.
- (g) Under the rent restructuring scheme the Government expects the Council to increase rents by 3.1% plus a 1/3rd movement to the formula rent which is expected to be reached by 2015/16. However, this increase must be limited for each property to 3.1% plus a 1/3rd movement to the formula rent or 3.1% 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 4% average increase.
- (h) As requested by this committee on 19 September 2012 the cost of providing guest rooms have been identified as follows:
- Staff Costs average £9.14 and each guest room has two beds. Electricity costs should cover the use of the washing machine, tumble drier and iron.
- Other local authority providers in the area are charging between £6 per room per night and £10 per person per night for the use of their guest rooms.
- A guest room charge of £4.80 per person per night (plus VAT) is therefore considered reasonable when taking these factors into account. The HRA estimates above and attached include this amount of income projection.

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 Full financial and other resource implications are addressed in this report and at 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 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. Rent levels are assessed based on the property and not on the occupants from any particular groups. The tenants are allocated properties in line with the Council's Allocation Policy and Choice Based lettings scheme, which have previously been assessed and the ability to pay is assessed through Housing Benefits assessments.

9.0 RISKS

- 9.1 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. It is therefore recommended that the minimum HRA working balance is increased to £750,000 as noted in 3.2(c) above.

9.2 Further risks in regard to the self financed HRA have been identified as follows:

Probability



Very High A		2		
High B	5			
Significant C				
Low D			3,4,6	
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 12 December 2012, 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: 3 January 2013

Appendices: Appendix A – HRA estimates

Background Papers: Oracle Financial Reports
HRA Budget Setting Working Papers

Reference: X: Committees/CSA/201213/22-1-13/HRA Revenue Budget Proposals 2013-14