

## COMMUNITY AND SOCIAL AFFAIRS COMMITTEE

21 JANUARY 2015

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

#### REVENUE BUDGET PROPOSALS 2015-16 - HOUSING REVENUE ACCOUNT (HRA)

#### 1 PURPOSE OF REPORT

- 1.1 To set the rents of Council dwellings, approve the HRA estimates for 2015-16 and set the working balance for 2015-16.

#### 2.0 RECOMMENDATIONS

- 2.1 **The Committee approve an average rent increase of 2.09% for Council dwellings for 2015-16 with effect from 6 April 2015 and that when a property is re-let the rent continues to be brought into line with the Governments formula rent;**
- 2.2 **The estimates for 2015-16 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;**
- 2.3 **A working balance of £942,410 is budgeted for at 31 March 2016 based on an average 2.09% rent increase;**
- 2.4 **The estimates for 2015-16 be updated in line with the resolutions made in item 9 on this agenda where required;**
- 2.5 **The estimates for 2015-16 be updated in line with the resolutions made in the Intensive Housing Management Service (IHMS) item on the Policy, Finance and Administration committee (PFA) agenda on 27 January 2015.**

#### 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 the Government's expectation in the self financing debt settlement and therefore our business plan was that the national rent restructuring policy would continue with the use of the September RPI figure + 0.5% as the basis for annual rental increases. However from 2015-16 the Government has changed this to the September CPI figure + 1.0%. As CPI is generally lower than RPI this will result in lower rent increases going forward, for example in 2015/16 the resultant percentage increase is a 0.6% loss to the business plan than it would have been under RPI +0.5%. 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. The average rent for 2015/16 will therefore become £76.80 per week.
- (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 initial impact on the General Fund (GF) as rent rebates are charged to the GF, but is then recharged to the HRA accordingly. During 2014-15 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 2015-16 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 2015-16 figures assume that rents will increase by an average 2.09%, compared to 2014-15.

	<b>2014-15</b>	<b>2015-16</b>	
	<b>Original Estimate</b>	<b>Estimated Year End Position</b>	<b>Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Surplus/Deficit (-) for year	-332,750	-332,700	-58,150
Working Balance B/fwd	1,282,119	1,333,260	1,000,560
Working Balance C/fwd	949,369	1,000,560	942,410

- (c) The carried forward working balance is broadly within with the target working balance of £750,000 and does allow for some level of flexibility.
- (d) The Estimated Year End position is slightly higher than the current in-year forecasting but is broadly in line with this position.
- (e) 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 2010-11 of £14,250. This borrowing is due to be repaid in March 2015 and so there will be no further need for this provision.

- (f) 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 2015-16.
- (g) 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 are therefore no longer 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 £2m at 1 April 2015, assuming no other borrowing is undertaken by the end of this financial year.
- (h) Under the rent restructuring scheme the Government expects the Council to limit increases in rents by 2.2% with no further movement to the formula rent. In addition the individual property limits are restricting the Council to the 2.09% average increase.

### **3.3 Affordable Rent**

- (a) Following the changes to the Right to Buy regulations in 2012 the Council signed an agreement with the Secretary of State to retain additional Right to Buy receipts for investment in new affordable rented homes. During 2014-15 we have built 10 affordable housing homes and therefore we are able to let these homes at affordable rent. The Tenancy Policy Report which includes affordable housing rent is at item 9 on this agenda and the budget is set to include this affordable rent. As with the additional Right to Buy receipts any additional rental income earned from affordable rent compared to social rent must be reinvested in new affordable rented homes, which is also allocated within these estimates.

### **3.4 Communal Cleansing**

- (a) In November the contract with the current supplier was ended, tenders are being sought but are not yet final. The estimates have been prepared using the previous year's figures as any increase in charges should be off-set by an increase to tenants and leaseholders. The current expectation is that any new contract would commence from April 2015 and the details will be brought to this committee as appropriate.

### **3.5 Intensive Housing Management Service**

- (a) Following the withdrawal of Supporting People funding by Leicestershire County Council, with the exception of the extra care service, a new Intensive Housing Management Service has been considered by the IHMS Task Group and their recommendations are being taken to a meeting of the PFA committee on 27 January 2015. These estimates only partially reflect the change in service, so the recommendation to this committee is to update the estimates as appropriate following the resolutions made at PFA.

## **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 has been considered 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.

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

### Probability



Very High A				
High B	4			
Significant C				
Low D		7	3,5	
Very Low E			1,2,6	
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	Proportion of RTB receipts not retained within the HRA due to pressures on other funds
3	Long term ability to fund stock to ensure kept within the decent homes standard
4	Impact of the inability to borrow beyond the self financing cap to fund capital repairs
5	Maintenance of stock within budget constraints
6	Robustness of stock condition survey
7	Demand for Intensive Housing Management Service fluctuates outside of budgeted levels

## 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 22 December 2014.

## 12.0 **WARDS AFFECTED**

12.1 All wards are affected.

Contact Officer: Carol King

Date: 12 January 2015

Appendices: Appendix A – HRA estimates

Background Papers: Oracle Financial Reports  
HRA Budget Setting Working Papers

Reference: X: Committees/CSA/201415/21-1-14/HRA Revenue Budget Proposals 2015-16